

does, in so far as Pennsylvania customers are concerned, enable Penn Water to supply their loads during on-peak hours? A. No, that is not correct.

Q. You say it is not correct because you want to include Baltimore as well? A. No, I am just saying it is not a correct statement.

Q. Is not the supplemental energy which Penn Water receives a benefit to Penn Water in connection with the supply of the Pennsylvania loads during on-peak hours? A. No, it is not.

[18346] Q. Let me put it this way, which I hope will eliminate any difficulties. Is it possible by using the hydro energy only without any supplemental supply of energy to meet the on-peak requirements of the Pennsylvania customers? A. I should like to answer that, I should like to give two answers to that question. First, the answer is yes, they can. Secondly, they do not operate that way, they never were intended to operate that way and it would not be economical for them to operate that way unless we changed the Pennsylvania contracts and provided for greater supply.

Q. Now, then, do I understand that your answer "yes, they can" is, if I may put it this way, "An answer based upon physical capacity alone without regard to the economics of [18347] the situation"? A. That is correct.

We went all through that on my re-direct, as you recall.

Q. I just want to understand exactly what you are saying; by having regard for the economics of the situation reliance is had on the supplemental energy to assist in meeting the on-peak requirements of the Pennsylvania customers? A. No, that is not correct. The supplemental energy makes possible a greater utilization of the energy and capacity resources of the hydro plants when used in supplying both the Pennsylvania customers and Baltimore Company and Washington.

Q. You mean, then, that the hydro plants can supply the firm power requirements of the Pennsylvania customers without any supplemental energy, right? A. They could as a physical fact.

Q. But as an economic fact they cannot? A. They could not supply the firm power requirements of Baltimore Company, the Pennsylvania Railroad and the Pennsylvania customers without operating their hydro plants in such a manner as to make the fullest use of the energy in providing capacity value of the hydro plants. You go right back to my Exhibit Number 8 in this proceeding where I explained that by conserving hydro energy for use during the peak hours it is possible to obtain a greater capacity value in terms of kilowatts—not dollars—from the hydro plants [18348] by such operation. To obtain this operation it is necessary for Penn Water and Safe Harbor to obtain supplemental energy to meet their off-peak requirements.

Q. Could the firm requirements of P. P. & L., M. E. Company and Philadelphia Electric Company be supplied by the hydros without any supply of supplemental energy? A. Yes, it could but it would not be for the reasons I have just given.

Q. And you say they could, even during periods of low flow? A. That is correct, but that is not the way they operate. It is not the way they were intended to operate.

Q. It is not the way they were intended to operate and it is not the way they operate because of a desire to secure maximum economy and maximum utilization of natural resources, is that right? A. That is correct, and when I say the way they do not operate and would not operate I am referring, of course, only to the present firm power requirements of the Pennsylvania customers. There might be quite a different method of operation if there were changes in those Pennsylvania customers' contracts which would permit an entirely different operation of the hydro plant and there would not be any requirement of supplemental energy and we might not have to consider the firm

power requirements to Baltimore, but we are talking [18349] about the situation as we find it today.

Q. You mean they would supply their own off-peak requirements? A. That is correct, as Metropolitan Edison Company does today.

I am referring to that type of contract. If all the Pennsylvania contracts—in fact, if Baltimore had the same type of contract there would be no need of supplemental energy at all and it would be possible to obtain even a greater utilization of natural resources of the Susquehanna River.

Q. Under those circumstances you are saying each company would supply its own off-peak requirements? A. Yes, sir, as they can today.

Q. In securing maximum economy and utilization of natural resources the supply of supplemental energy is a necessary component of that operation in meeting the on-peak requirements of the Pa. customers, is not that so?

MR. SPARKS: Mr. Examiner, I have listened to this at quite some length this morning without objecting. I do object now to this line of cross-examination since it was gone into thoroughly on cross-examination after re-direct of Mr. Spaulding last fall, and I am sure it was gone into during his cross-examination in chief. It is therefore, repetitive.

[18350] TRIAL EXAMINER: The objection is overruled.

THE WITNESS: No, that is not correct. The supplemental energy is required to meet the off-peak requirements of the present firm power customers, not the on-peak requirements.

By MR. GOLDBERG:

Q. Those off-peak requirements are firm power requirements? A. Yes, sir, they are, in connection with present contracts.

[18355] Q. Will you please turn to Exhibit 379, Schedule D? A. Yes, sir.

Q. Do I correctly understand that Schedule D does not represent any bill which is actually rendered to Baltimore Company? A. You correctly understand that the dollars shown on that bill were not the dollars paid by Baltimore Company.

Q. Well, is Schedule D a reproduction of a bill actually rendered to Baltimore Company for 1946? A. No, it is not.

Q. It is, shall we say, a hypothetical, a synthetic bill which you have developed to point out Items (d) 5a and 5b? A. I think I would say more than that, Mr. Goldberg. For some time Baltimore and Penn Water have considered the necessity of a firm power bill and have discussed the means of preparing such a bill and billing in accord with a firm power bill, but because of the imminence of the present proceedings Baltimore Co. did not desire to use this form of bill.

[18378] Q. Have the rates gone up on Pennsylvania Power and Light Company since 1933? A. They have.

[18379] Q. Since 1933 they have been increased? A. That is right, by reason of adjustments in the contract.

Q. A fuel adjustment? A. That is correct, by reason of the fuel rate adjustments provided for in the contract.

MR. SPARKS: May we have Mr. Goldberg's original question about the rate?

TRIAL EXAMINER: Yes.

(Question read.)

THE WITNESS: I am sorry. I did not recognize that you were limiting that to Pennsylvania Power and Light Company. The Pennsylvania Power and Light Company contract for firm power services does not contain a fuel rate

adjustment, so that is the exception of the Pennsylvania customers.

By MR. GOLDBERG:

Q. So that the rates of Pennsylvania Power and Light Company have not been increased since 1933, and your answer was directed to Philadelphia Electric Company? A. And to Metropolitan Edison and the Railroad.

Q. What are the "very definite advantages and benefits not available to the other customers of Penn Water" that Baltimore Company obtained in 1931 and still has today? A. One of them was the matter we discussed this morning, whereby supplying off-peak energy at a time when [18380] Baltimore's cost is low, and when it is being generated on the most efficient generating units, permitting the conservation or retention of water behind the hydro dams in order that the same amount of energy may be supplied to Baltimore Company during the on-peak hours when such energy would otherwise have to be generated on the less efficient and higher cost generating equipment at Baltimore and Washington.

Q. And your testimony is that in so far as Penn Water and Safe Harbor, if you will, are concerned, that supply of backfeed is not beneficial to Penn Water? A. No, that is not; that is beneficial to Baltimore Company.

Q. In relation to Penn Water's and Safe Harbor's, if you want to put it that way, firm power requirements of Pennsylvania? A. That is right, and that is one of the several big advantages to Baltimore Company.

Q. Now, what are the other very definite advantages and benefits not available to the other customers of Penn Water which Baltimore Company secured in 1931 and still has today? A. The flexibility that comes from operating large hydro plants such as those at Holtwood and Safe Harbor together with the generating facilities of Baltimore and Washington, as two horses in a team, if you will, all of the advantages of such operation inure to Baltimore.

Company and do not [18381] inure to any of the Pennsylvania customers, including in that manner the capacity advantages which permit the flexibility of operation of the hydro and steam at such times as they will have the greatest benefit to Baltimore Company both from an operating point of view as to economy, and from an operating point of view as to scheduling of maintenance.

Q. This flexibility of operation is of benefit to Penn Water? A. No, it is not. It is a benefit to Baltimore Company.

Q. In other words, you have the interconnected system with the benefit flowing from the flexibility of the interconnected system, flowing solely to one member of that interconnected system; is that it? A. That is the benefit that flows to Baltimore through the contract, and is not available to the other customers of Penn Water.

Q. Is your answer "yes" to my question? A. May I have it again? I thought I answered it.

(Question read.)

THE WITNESS: Well, I did not say to one member, because there is more than one party that benefits to some extent. Washington gets some benefit from that as the result of being a member or being a party to a pooling arrangement, but most of the economic advantages flow directly to Baltimore Company [18382] and I think it would be correct to say that any advantages that might otherwise go to Washington other than those provided for in that contract still flow to Baltimore Company, so that I think your statement is correct.

Q. Well, I want to be sure I understand. Are there any advantages flowing to Penn Water from this flexibility of operations derived from this pooling arrangement? A. No.

Q. So that it is your testimony that it goes to only two members of the interconnected system, namely, Washington Company and Baltimore Company? A. Well, I have

since qualified that and said that it all goes to Baltimore Company because Baltimore Company gets all the economic benefits that grow out of the interconnection arrangement between Baltimore and Washington except such as may go to Washington under the terms of that agreement.

Q. That qualification really goes to one customer, is your testimony? A. That is correct, all the benefits flow to Baltimore Company, those benefits we have been talking about.

Q. Is maximum utilization of natural resources a benefit flowing from the interconnected system? A. The maximum utilization of the natural resources results from such coordination, and the benefits of such operation flow to Baltimore.

[18383] Q. All of it flows to Baltimore? A. The day to day, hour to hour or year by year benefits flow to Baltimore Company, that is correct.

Q. And would that be your testimony if I substituted for maximum utilization of natural resources resulting from the operations of the interconnected system, maximum economy resulting from the operations of the interconnected system, all of those advantages flow only to Baltimore from day to day, hour to hour and year to year?

THE WITNESS: I do not believe so because some of the economies are the result of interchange transactions, the savings from which are divided between Baltimore Company on the one hand and Penn Water on the other, which Penn Water passes on to its Pennsylvania customers in the way of a saving in their operating expense from such interchange.

By MR. GOLDBERG:

Q. So you would say that there is a benefit in connection with interchange that flows to Penn Water and the Pennsylvania customers? A. Yes, there is.

Q. That is the only qualification you would make, interchange? A. My difficulty in answering that is just what we go [18384] back to when you say is that the only qualification, interchange. Are you going back to the economies of operation?

Q. That is right, the point you just mentioned. A. That is correct.

[18386] Q. So that we can safely talk about the minimum amount and in talking about that amount it is your testimony—and I will not relate it to anything else right now—is it your testimony that the hydros, Safe Harbor and Penn Water can meet the requirements of 45,000 kw on a continuous basis without receiving any supplemental supply of energy? A. Of course, giving consideration to the steam generation at Holtwood?

Q. Yes. A. It could not under all low-flow conditions, no, but under most low-flow conditions it could and at such times it would not require supplemental energy from some source.

Q. What are the advantages to Baltimore Company as the residual receiver as you have testified in lines 20 to 22 of transcript 16,669? A. One of the advantages is the ability or opportunity [18387] to use hydro energy and capacity during high-flow periods for purposes of steam station maintenance and for other equipment maintenance work.

It must be recognized in connection with that position as a residual receiver that there is a very definite seasonal variation in the amounts available and while it cannot always be predicted way in advance, it can be predicted with reasonable accuracy for periods of six weeks or thereabouts.

Q. That fits into the advantage that you described as flexibility of operations? A. Yes; that is right, that is one of them.

Q. Are there any other advantages that you have in mind when you use the word "advantages" in line 22 of

transcript 16,669? A. There is a definite tax advantage under the existing contract in such a position.

Q. You mean a federal tax advantage? A. Yes.

Q. Is that related to that pyramiding situation? A. That is right, yes, it grows out of that form of contract. The difference between a "d. a." company that Mr. Walls testified to in the proceedings in IT-5914 and the "S. H." type of contract is a very real dollar advantage, several hundred thousand dollars a year, I believe.

Q. Any other advantages that you have in mind? [18388] A. No, I think those were the only two.

Q. What do you understand by the phrase "residual receiver"? A. A company who will receive or can receive the amounts that may be available after some other situation has been met. In this instance, of course, the amount of energy, capacity and other services that are available after the other obligations of Penn Water and Safe Harbor have been met and provided for.

[18436] Q. * * * I would like to show you an article written by Mr. Allner, with which you are probably familiar.

[18437] A. Yes, I think I assisted him in the preparation of the data therein.

Q. Which appears in Volume 66 of Power at page 135. I have a photostatic copy so I can leave this before you.

The article is entitled "Operation of Hydro and Steam Plants in Parallel." Isn't that right? A. Yes.

Q. And it is by F. A. Allner; is that correct? A. That is correct.

[18438] Q. And from what you have just said you, of course, knew Mr. Allner and worked with him. Is that right? A. Very well, yes, indeed.

Q. At the time he wrote the article he was general superintendent of Pennsylvania Water and Power Company. Is that right? A. It so states in the article.

Q. Mr. Allner was connected, was he not, with the design and construction of the Holtwood Steam plant? A. Yes, he was.

Q. Referring to page 136 under the caption "Size and Type of Generating Units," do you see that? A. Yes.

Q. This appears, does it not: "From the point of view of low first cost and of economy of operation under base load conditions, larger generating units would have been desirable. However, these considerations were subordinated to sturdiness, reliability of service, quick starting and maximum coordination with the hydroelectric plant." It so states, does it not? A. It does. You have read it correctly.

Q. You don't disagree with that, do you? A. No, indeed, recognizing it was written in 1927 under then-existing conditions, and I think the next sentence which you did not read is the sentence you and I have been discussing [18439] at some length for the last hour and a half.

Q. If you think so I would be glad to have you read it. A. I would like to.

"Furthermore, under the existing conditions these initial steam units must often operate at a comparatively small load, either when separated from the rest of the generating system, or in high flow when operating on the peaks so as to take the top of the load and give the hydroelectric units maximum load. All these considerations pointed toward relatively small sturdy machines for the initial installation, approximating in capacity the hydroelectric units."

[18441] Q. I want to refer you to another article written by the same Mr. Allner entitled "The Holtwood Steam Plant Design and Operation in Coordination with Water Power." Are you familiar with that article? A. It appears to have considerably the same text as the other article appearing in "Power" had.

MR. SPARKS: Does it have a date on it?

THE WITNESS: Yes, it was presented at the summer convention of the American Institute of Electrical Engineers in Detroit, Michigan, in June of 1927.

By MR. GOLDBERG:

Q. The same year the other article was presented to which we referred, is that correct? A. It was.

Q. Will you refer to page 8 of the article, the first paragraph in the right-hand column on that page? Beginning at about the third line this appears, does it not: "The present boiler installation is larger than needed for the first two turbines, and surplus pulverizing capacity on a bituminous rating was installed to offset partially the reduction in capacity when milling river coal." Is that right? A. Yes.

Q. "Switching equipment is installed for two more units [18442] and the cable tunnel to the hydroelectric plant will take care of the ultimate station."

Have I correctly read from the article? A. You have.

Q. And I imagine you agree with that, do you not? A. I agree with the statement as written in 1927, yes. Those are not all the facts today which I referred to on page 16,680.

Q. The facts today, Mr. Spaulding, can't change the reasons why capacity was installed at the time it was installed, isn't that so? A. But additional costs have been incurred since then, Mr. Goldberg.

[18459] Q. Is it your statement, in the light of that testimony, that furnishing backfeed does not constitute furnishing capacity service? A. That is correct.

Q. You say when arrangements have been made to operate capacity without energy that that constitutes the furnishing [18460] of backfeed as a capacity service? A.

Well, my difficulty with the question is this: That backfeed has generally been used in reference to energy alone, yet we had an example the other day in one exhibit, I believe it was a bill for interchange services rendered between Penn Water and P. P. & L. Company for April, 1944 in which there was capacity services arranged in advance and billed as interchange services, and during that month certain of that capacity that was operated without energy was operated by Baltimore Company. That is an instance where capacity service is provided by Baltimore Company in connection with interchange transactions arranged, first, by Penn Water with its Pennsylvania customers, and may or may not involve the furnishing of backfeed energy.

I assumed you were using the word "backfeed" in a general sense rather than as energy itself.

Q. When there is a backfeed flow of energy, at such times does Baltimore Company ever furnish any capacity service? A. In connection with such interchange transactions as I have just referred to.

Q. How about when the backfeed is being supplied for firm delivery in Pennsylvania? A. No, Penn Water and Safe Harbor are themselves providing capacity service in that connection, and they are receiving services as backfeed.

Q. That is true even when Safe Harbor and Penn Water [18461] generating units are not generating electric energy? A. That is correct, they need not be generating electric energy.

Q. Could you define capacity service that Safe Harbor and Penn Water are then providing? A. Yes. There is capacity operating for the rendering of such capacity service, such as I have described the last several days.

Q. You mean reactive? A. Reactive, yes, as well as capacity being one of the services being rendered by Penn Water and Safe Harbor. Reactive is another service. Voltage regulation is another service being rendered by Penn Water and Safe Harbor, and supplied together with

energy received by Baltimore Company in connection with such service.

Q. Does that apply during extended low-flow periods?
A. Yes. One doesn't have to have energy to provide capacity service at all.

Q. One can be supplying energy and still be supplying capacity service? A. One can be. One doesn't necessarily. For instance, interchange transactions largely relate to supply of energy without any capacity commitment whatsoever, or any capacity obligation whatsoever.

Q. You said a little while ago that when Baltimore starts [18462] up a unit in a generating station that is already operating to meet Penn Water's requests for backfeed that Baltimore is doing no more than anybody else does. A. That is correct.

Q. Does that apply to the Pennsylvania customers?
A. Yes.

Q. Is it your statement that they are obligated to start up a unit in an operating station that is operating to supply Penn Water's demands? A. They have the same obligation that Baltimore Company has to do so.

Q. Your answer is "Yes", then, to my question? A. That is correct. Neither one, of course, is considered to have such an obligation. It is merely an agreement to do so from time to time.

Q. Is it your statement that Article 6 on page 9 of the Item H is not the basis for the furnishing of backfeed by Baltimore upon request by Penn Water? A. It is the provision which indicates that Baltimore will provide such backfeed energy, yes.

Q. And is it your statement that there is nothing in Article 6 imposing an obligation upon Baltimore Company to [18463] start up a unit in a generating station in operation if necessary to meet the requirements for backfeed made upon it by Penn Water? A. No more so than any

other customer that Penn Water arranges with to provide interchange energy.

Q. That is not my question. My question is directed solely to Baltimore Company. I will have it read. A. It is an agreement by Baltimore Company to do so; that is correct.

Q. It is an obligation of Baltimore Company? A. From an operating point of view I do not consider that any different operating responsibility than is undertaken by any of the other customers.

Q. That is not my question. It is an obligation of Baltimore Company— A. What do you mean by "obligation"?

Q. You used it yourself this evening.

TRIAL EXAMINER: Is it an operating responsibility?

THE WITNESS: It is.

By MR. GOLDBERG:

Q. Is it an operating obligation? A. I don't know what the legal obligation is, Mr. Goldberg.

Q. You have used "operating obligation" without regard to any legal concepts, and I ask you in that sense whether it [18464] is an operating obligation.

TRIAL EXAMINER: Look at your testimony on 16,682.

MR. GOLDBERG: I was just looking at that, Mr. Examiner. I was going to get at that next.

THE WITNESS: I don't consider it so.

By MR. GOLDBERG:

Q. But you do consider, whatever it is that Baltimore has to do, is no more than what the Pennsylvania customers have to do on an as, if and when basis; is that correct? A. That is correct.

Q. You do recognize, however, do you not, that whatever Baltimore has to do it has to do until 1980 while what-

ever the Pennsylvania customers do they do on an hour to hour or day to day basis? A. I still don't consider it any different.

Q. You recognize that, however, don't you? A. I recognize that the contracts have different termination dates.

Q. You recognize, do you not, that the provisions of Article 6 are not on an hour to hour and day to day basis? A. No, I do not.

Q. You look at them as representing nothing more than an hour to hour and day to day basis? [18465] A. That is correct. I look at them exactly that way, as nothing more than an hour to hour and day to day basis.

[18466] Q. You are familiar with Article VIII appearing on page 35 of Item H, I am sure. Does that Article VIII mean [18467] to you that the operations of the steam stations and the hydro stations of the interconnected system are to be so coordinated that backfeed from Baltimore and Washington will be available when and to the extent that it is required by Penn Water?

THE WITNESS: No, it means that it will be operated to provide maximum economy only.

[18548] Q. What investments are now being accumulated in connection with contemplated projects which are classified as property held for future use? A. Largely land items.

Q. What are the contemplated projects? A. Additional transmission facilities and additional [18549] hydroelectric developments.

[18555] Now, you were talking about an investment having been made for future use in connection with "an additional hydroelectric development". What is the amount of

the investment that has been made for that purpose? A. The amounts as of December 31, 1946 were slightly under \$60,000.

Q. Is the general location of the property above Safe Harbor? A. Yes, sir.

Q. Is it not fair to state that there are no definite plans for that additional hydroelectric development? A. There are no definite plans in that a specific design, a specific location or a specific date has been set; and when I say "specific" of course, I mean that they have not been definitely determined.

Q. In thinking about this additional hydroelectric development, I take it you are thinking about it as a separate hydroelectric development above Safe Harbor? A. That is right.

I should like to change an answer I made a few moments ago as to the amounts that have been invested for such purposes. I think I gave a figure as of December 31, 1946.

Q. Right. A. I should like to qualify that statement by saying that for the purposes of my cost-allocation study, evidenced [18556] by Exhibits 35 and 378, I only included an amount of dollars equal to some \$57,000.

MR. SPARKS: You are relating that statement, Mr. Spaulding, to the investments being made for future use in connection with an additional hydroelectric development?

THE WITNESS: Yes.

By MR. GOLDBERG:

Q. I take it the money has been spent for the acquisition of land rights; is that right? A. Yes, sir.

Q. I take it there has been no thought given to who would own and operate the plant if and when constructed, is that right? A. Yes, there has been some thought given to it.

Q. Is it contemplated that Penn Water would own and operate it, in your present thinking? A. That decision has not been made.

[18563] Q. Now, at transcript 16686 you complain, line 24, to transcript 16687 line 6, both inclusive, about Mr. Davis' use of \$992,535 in his allocation because you say Penn Water actually paid more than that in 1944.

Now, then, considering as you have said, that an allocation should have regard for the future, was \$992,535 more consistent with the future than the \$1,214,000? A. That remains for the courts to determine. That matter is already before the Third Circuit Court, and I cannot determine what their judgment is going to be.

Q. Is the rate reduction ordered by the Commission in Safe Harbor's rates presently in force? A. With the stipulation by the parties that the money will be refunded to Safe Harbor in the event the courts hold that such amounts are deficient.

Q. So that the charges today are based upon the Commission's order, right? [18564] A. That is right. With the stipulation I just stated, which I believe is also in the hands of the Federal Power Commission.

Q. When were Items E, F and G filed with the Pennsylvania Commission? A. I could not tell you. I do not have that date. I will be glad to get it for you if you wish.

Q. I would appreciate it. A. Probably there was more than one date because the contract identified Item G was filed, I am sure, later than contracts E and F.

Q. I would appreciate having all the dates. A. I think I can give it to you, and it was filed both by Safe Harbor and by Penn Water with Pennsylvania Public Utility Commission.

Q. And filed by Penn Water at the same time and Safe Harbor? A. I would presume at the same time, yes.

Q. Will you ascertain that? A. If I can do so over the evening.

Q. Have any revised schedules been filed with the Pennsylvania Commission regarding Items E, F and G by either Safe Harbor or Penn. Water? A. As I recall, the Pennsylvania Commission has been advised of the receipt of FPC Order 143, and that the parties [1855] have entered into a stipulation relating to the amounts currently being paid and the conditions under which Safe Harbor may look to those parties for additional sums in the event that the contentions of Safe Harbor Company are upheld by the Third Circuit Court.

Q. So that no revised schedules have been filed with the Pennsylvania Commission? A. Not that I recall unless you call that letter a schedule. It was not filed as a schedule.

[18614] Q. Do you recall at all when you reached your conclusion with respect to the 295,000 kw for hydro and the 28,000 kw for steam capacity in connection with the capacity values as you express it in Exhibit 35?

A. I would say it was within a matter of weeks of the time the testimony was finished and I think it was finished very shortly before it was presented. I would say it was during the first part of the year 1946, probably the first quarter.

[18615] By MR. GOLDBERG:

Q. That was the testimony presented in connection with the identification of Exhibit 35, is that correct? A. Yes, sir.

Q. Do I correctly understand you did not employ the probability method in arriving at that 295,000 kw? A. No, you are not to understand that. I had the benefit of Mr. Watchorn's conclusions in the probability determination of dependable hydro capacity and at that time I gave

very careful consideration to it, among the other factors that he considered.

Q. You mean it entered into your judgment in arriving at the 295,000 kw? A. Yes, definitely, and was one of the strongest factors, but I did not desire to use it until I had considered these other matters, as well.

[18618] Q. What do you mean by that, every time you have used it in such connection? A. Every time I have used "dependable capacity" in connection with my rebuttal testimony of Mr. Davis, Exhibit 64, every time I have used dependable capacity as I used it in connection with Exhibit 35 and Exhibit 378, I have used dependable capacity as being the dependable capacity determined from a probability study.

[18635] Q. When you stated to the Examiner a little while ago that Penn Water always had, I think you said, services available or resources available. A. I think the latter is right.

Q. You were there confining yourself to capacity, and it did not intend to extend your answer to availability of energy, is not that so? A. I did intend to include availability of energy.

Q. You always have enough energy? A. Yes, but may I explain that, because I think I see the difficulty.

Penn Water and Safe Harbor do have the necessary energy resources to meet all the firm power requirements of the Pennsylvania customers. In order that they may provide energy services to Baltimore also, Penn Water and Safe Harbor obtain supplemental energy services, not capacity services but energy services, from either the Pennsylvania customers or from Baltimore off-peak, in order that there may be ample energy resources to supply Baltimore Co. during the on-peak hours in addition to the sup-

ply of all of the firm power services to the Pennsylvania customers on-peak.

[18675] Q. Referring you to your answer at lines 1 to 8 of transcript 16638, has Baltimore Company since 1933 physically provided electric service for supply to Coatesville at times when Safe Harbor and Penn Water were unable to do so? A. No.

[18685] Q. Referring to 16649, to the question beginning at line 23 and the answer following, will you please specify the times since the effective date of the 1931 supplemental agreement when Baltimore did actually render a bill to Penn Water for backfeed?

MR. SPARKS: I object to that as cumulative. Mr. Goldberg questioned Mr. Loane about the same details, as I recall, a few days ago.

TRIAL EXAMINER: He may answer.

THE WITNESS: In the years 1931, 1932 and I believe '33, if that is sufficient. I do not have the exact months in those years.

By MR. GOLDBERG:

Q. Was it more than one month? A. Oh, yes; several months, if not many months in those three years.

Q. Is it your testimony that such bills were rendered under "Article 6 of Item H"? A. Generally so; not exactly in accord with that section.

[18686] Q. That brings us to the next question: You have testified: "Such bills were computed generally in accord with Article 6—" and I will stop there. I was wondering what your qualification was when you say "Generally in accord"? A. Article 6 of the 1927 agreement in Item H states, "The costs to be used are those reported on Electric's monthly production statement covering the month

during which steam energy was furnished to Power—" in this instance Electric refers to Baltimore Co. and Power to Penn Water, and the costs there referred to are the costs to be used and to which 10 per cent is to be added in determining the amount of the bills. Actually that exact method was not used after 1931, or at least was not used after the middle of 1931; rather, the amounts used were as shown on Exhibit 367 where it indicates that the Westport production cost alone was used rather than the monthly production statement cost for all of the generating stations of Baltimore, and the difference was rather material.

Q. You have answered three questions in one. Tell me this: Was the supply of energy shown in Exhibit 367 provided by the Westport Station? A. That is not known, of course, exactly where it was provided. It was provided by the system and the costs at Westport were used for the month in which such energy was supplied by Baltimore Company to Penn Water.

Q. Am I correct in my conclusion that the face of the [18687] bill discloses that the charge was based on an agreement between R. L. Thomas and F. E. Ricketts? A. Yes, to the extent that Mr. Thomas and Mr. Ricketts were at that time—that is, in 1931 and 1932—members of the operating committee designated under the provisions of the contract-H, and the bill was made out in accord with that operating committee's determination.

Q. Does that agreement which appears on the face of Exhibit 367, in substance apply to all the bills which were rendered in 1931, 1932 and 1933? A. Yes.

Q. Was it a written agreement or an oral agreement? A. There was no written agreement and I do not know whether it was any more than merely the arrangement by the operating committee, they having power to do so in connection with this matter.

MR. SPARKS: I take it your question about the agreement, Mr. Goldberg, in the years 1931, 1932 and 1933, related to the backfeed bills?

MR. GOLDBERG: That is right.

THE WITNESS: And specifically such as is shown on Exhibit 367.

By MR. GOLDBERG:

Q. Do you view the agreement appearing on Exhibit 367 as a modification of Article 6 or as having nothing to do [18688] with Article 6? A. I do not view it as an agreement. I view it as a procedure which the operating committee agreed to, which was their interpretation, I guess, I cannot say, presumably their interpretation of Article 6.

I do not know whether they had advice of counsel in that matter or not.

Q. Did I understand you correctly to say that Article 6 is not limited to Westport's production costs or to any station's production costs? A. It does not appear to be and I know that prior to 1931 the system costs were used.

Q. Is the \$8,383.16 shown on Exhibit 367 a part of the \$14,452.47 shown as Item (d)-2 on Exhibit 368? A. It is.

Q. Do you know in what months the other backfeed charges covered by the additional \$6,000 took place? A. No, I do not recall. I think it was the latter part of the year but I would not be certain.

Q. Was it at the same rate as shown in 367? A. Not at the same rate but under the same bases as are shown on Exhibit 367.

Q. Will you turn to Exhibit 369? A. Yes, sir.

Q. Referring to Exhibit 369, what do you mean by [18689] "Baltimore Co. Average Monthly Production Cost Plus 10%" which is the heading for the fourth column? A. The amounts shown or the rates shown in column 3 were determined in the following manner: Baltimore Company's average production cost for each month was determined from their production statements. To that 10 per cent was added, then such amounts were averaged for the year in proportion to the amounts of daily net backfeed

energy received by Penn Water in each month of that year, so it was done on a monthly basis using monthly averages, and then from that getting an average for the year, but it was done on a weighted basis rather than a numerical average basis.

[18691] Q. When you put the caption "Baltimore Co. Bill to Penn Water under Article 6 of 1927 Contract" on the last column of Exhibit 369 you were not there referring to any actual bills for 1944, 1945 and 1946, is not that so?

[18692] THE WITNESS: No, I was not referring to any actual bill rendered, but rather the bills that would have been rendered under the contract except for the reason given that such billing did not affect either company's net income.

TRIAL EXAMINER: No, I do not understand that.

THE WITNESS: Mr. Examiner, in the past the record will show that I stated that the reason there was today no billing for backfeed under H and I was because the operating committee [18693] had been advised by counsel for Baltimore Company that the necessity for billing for backfeed between Penn Water and Baltimore Company under H and I was of no interest to any party other than Penn Water and Baltimore and that because it did not affect the operating income of either company it could be dispensed with.

Accordingly, we have not been billing for backfeed under Article 6 of the 1927 agreement or under H and I since about 1933.

It is true that it did not appear to affect anybody until these proceedings started and now it is evident that it does affect somebody and that is the reason we have pointed that out, particularly the distinction between the net billing and the gross billing, the gross bills being the firm power bills rendered by Penn Water to Baltimore Company.

TRIAL EXAMINER: I see. What is the net bill?

THE WITNESS: The net bill is the bill actually rendered by Penn Water to Baltimore Company. The firm power bills are the bills that would have been rendered had we billed for backfeed and accounted for backfeed services separately in accordance with the initial intent of the contract.

[18699] Q. Is it not a fact that in 1927, when Article 6 was executed as part of the 1927 agreement the 220 kv lines were not in existence? A. They were not in existence.

[18700] Q. Now, this backfeed that appears in Exhibit 367 was handled over the 25-cycle line, that is over the Highlandtown line, right? A. No, I do not think it all was.

Q. Well, none of it was handled over the 220 kv lines, was it? A. I think so, yes.

Q. Were the 220 kv lines already operating in December, 1931? A. No, there was no power flow over the 220 lines. They did not go in until about 2 weeks after this bill was rendered.

[18701] Q. The energy was November? A. Yes, and that is why I was first confused; there was subsequent billing of course related to energy that flowed over the 220 lines.

Q. So that this energy in Exhibit 367 was handled over the 25-cycle lines, right? A. Yes.

Q. So there is no netting involved in Exhibit 367 between flows over the 220 kv circuits and flows over the 25-cycle lines, right?

[18741] Q. Mr. Spaulding, I think there are some matters of homework that you were to report on. Are you ready to report on them? A. Yes.

Q. I think one of them related to the dates of filing of Items E, F and G with the Pennsylvania Commission? A. I have those dates.

Q. Would you please state them? A. The original Safe Harbor contract identified as Item E, dated June 1, 1931, together with the supplement to this 1931 contract dated August 1, 1932 and identified in these proceedings as Item F, was filed by Safe Harbor Water Power Corporation with the Pennsylvania Public Utility Commission on September 16, 1933, and was designated by that Commission [18742] as Safe Harbor Tariff No. 1.

These two contracts identified as Items E and F were also filed with the Pennsylvania Public Utility Commission by Penn Water on September 16, 1933 and were designated by that Commission as Penn Water Tariff No. 5.

The second supplement to this 1931 Safe Harbor agreement which has been identified in these proceedings as Item G and dated November 22, 1939 was filed with the Pennsylvania Public Utility Commission by Safe Harbor Water Power Corporation on December 7, 1939 and was designated by that Commission as Safe Harbor Tariff No. 1, Supplement No. 1.

This supplemental agreement, Item G, was filed by Penn Water with the Pennsylvania Public Utility Commission on December 7, 1939 and that was designated by that Commission as Penn Water Tariff No. 5, Supplement No. 1.

[18757] RE-DIRECT EXAMINATION.

By MR. SPARKS:

Q. Mr. Spaulding, at transcript page 17,216 Mr. Wahrenbrock asked you at line 17:

"Do I understand you, then, as saying that the rendition of these other services is a necessary incident to the supply of energy for which the dollar amounts are billed?"

And you answered "Absolutely".

In making that answer, did you mean to imply that the services provided at the Safe Harbor and Holtwood plants

other than the supply of energy are incidental to the supply of energy?

[18758] THE WITNESS: No, I did not. As I have pointed out in many places in my testimony there are times when the other services, such as capacity service, is provided at Safe Harbor and Holtwood when no energy is supplied.

[18759] Q. Referring to your answer at lines 4 to 6, inclusive, page 18,343, is that answer reported correctly? A. It is not. When I referred to generating sources—

TRIAL EXAMINER: Now, wait just a minute.

THE WITNESS: I was referring to the generating sources of Penn Water and Safe Harbor as a group.

[18857] DALE E. GOUBLEMAN

a witness herein, having been first duly sworn, testified as follows:

[18858] DIRECT EXAMINATION.

By MR. GOLDBERG:

[18864] Q. Do you have data showing whether or not Penn Water investors in common stock were concerned with the probability of future rate reductions? A. Yes, I have.

Q. What data do you have? A. I have photostat copies of "Standard Unlisted Securities—Stock Reports", published by Standard & Poor's which [18865] are utilized by investors in making investments.

Q. Are there statements in such reports disclosing concern with probability of rate deductions? A. Yes, there are.

Q. Please tell us what reports you have? A. I have reports dated May 25, 1938, December 5, 1938, February 27,

1939, October 11, 1939, January 12, 1940, May 6, 1940, August 28, 1940, February 26, 1941, April 13, 1942, June 4, 1943 and November 29, 1944.

Q. What is the nature of the statements which appear in these reports to which you have had reference in your earlier answers? A. Well, the report for May 25, 1938 states with respect to Penn Water common stock, as follows: "The possibility that earning power may be impaired by rate reductions dictates a conservative attitude toward the otherwise strongly situated common stock."

This same statement in virtually those very words appears in each of the reports to which I have made reference. In addition, the report of May 25, 1938, states that "because of the contractual nature of the business, earnings should be well maintained. Nevertheless, rate investigations make for some uncertainty."

The report also states: "Pennsylvania Water & Power's 1937 operating income was equal to 9.3 per cent of depreciated [18866] book value of plant." Again, in the report of August 28, 1940, after referring to the Commission's order reducing Safe Harbor's rates it is stated that if the Safe Harbor order is upheld "Pennsylvania Water & Power also would be vulnerable to a rate reduction", and in the report of February 26, 1941, it is stated that: "Regulation of hydro wholesalers has taken a more aggressive turn in the recent past. In 1940 the FPC limited earnings of Safe Harbor Water Power to 6 per cent on 'net investment'. Should the Commission be upheld, Pennsylvania Water & Power also would be vulnerable to a rate reduction."

This same warning appears in virtually the same words in the report of April 13, 1942. Also the report of August 28, 1940 states:

"In 1939, operating income was equal to 8.9 per cent of depreciated book value of plant." The report of June 4, 1942, stated:

"In 1942, the Company earned 9.0 per cent on net plant, excluding \$2,106,765 transferred from plant to the electric plant adjustment account", and under the caption "Prospects" is the statement "One uncertainty in the outlook is the possibility of regulatory pressure upon the high rate of return."

Q. Are the reports to which you have referred all of the reports in which the investors' attention is directed to the possibility of rate reductions affecting the earnings of [18867] Penn Water? A. No, there are others. I have merely referred to some of the typical statements which appear in those reports.

[18875]

CROSS-EXAMINATION

By MR. SPARKS:

[18879] Q. This was my question, Mr. Goubleman: Are you in agreement with the standards and principles which Mr. Joseph testified were followed in the compilation of Exhibit 46? A. Yes, I believe that I am.

Q. Were those standards and principles followed in the preparation of Exhibit 404? A. I believe they were with one or two minor exceptions. I have supplemented Exhibit 404 in one or two places.

[18894] Q. Mr. Goubleman, referring now to page 38 of Exhibit 404, do you have the figure for April, 1947 which should follow the 6.89 as shown for March, 1947? A. I have computed that figure to be 6.97 per cent.

Q. That is for April, 1947? A. Yes.

[18925]

GEORGE H. DAVIS.

DIRECT EXAMINATION.

[18928] By Mr. GOLDBERG:

Q. Have you examined the "Cost of Service Study", Exhibit 378, in which Mr. Spaulding allocates Pennsylvania Water & Power Company's and Safe Harbor's cost of service to Baltimore? A. Yes.

Q. What are the principal differences between the method used by Mr. Spaulding and that used by you in your allocation? A. Mr. Spaulding allocates costs to Baltimore only and makes no allocation between any of Holtwood's other customers.

Mr. Spaulding does not consider Pennsylvania Water & Power Company by itself but combines it with Safe Harbor. His analysis, therefore, gives no answer to the question of how much of Pennsylvania Water & Power Company's costs are applicable to Baltimore or to any other customer.

Q. What is the effect of Mr. Spaulding's method on the proportion of Pennsylvania Water & Power Company's service which is included in the total service that he allocates to Baltimore? A. It tends to increase the percentage of Holtwood's service that he allocates to Baltimore.

[18929] Q. How does it increase the percentage? A. By entitlement under Items E, F and G, Baltimore purchases 66 2/3 per cent of Safe Harbor's output. However, the per cent of Holtwood's output delivered to Baltimore is much less than that, due to the greater proportion of it which is required to supply the Pennsylvania customers.

Q. How does this affect the result? A. On the combined ratio, the proportion of Holtwood's costs allocated to Baltimore is greater than the proportion of its service supplied to Baltimore.

Q. Have you prepared a cost allocation based on the data and costs of 1946? A. Yes.

Q. Have you also prepared an explanation of this allocation and its relation to the allocation based on 1944 data and costs as part of the 1946 study? A. Yes.

Q. Is Exhibit 421 for Identification the document referred to? A. Yes.

Q. In this allocation have you made a determination of dependable hydro capacity? A. Yes.

[18930] Q. In making that determination, have you followed the method used by the Holtwood Company? A. I have followed the general method which was used by Holtwood and Baltimore in reporting dependable capacity prior to 1945, and which was discussed at a conference between this Company's engineers and members of the Commission Staff on June 25, 1946.

Q. Who attended this conference and where was it held? A. It was held in Mr. Spaulding's office in Baltimore and was attended by Messrs. Spaulding, Watchorn, Loane and Von Eiff of Holtwood Company and Mr. Roland and myself for the Staff.

Q. What was the occasion for the conference? A. The Commission had received reports from Holtwood and Baltimore Companies giving estimates of dependable capacity which varied widely. The conference was held at the request of the Staff for the purpose of learning the methods by which these different results were obtained.

Q. What information were you given at the conference in Mr. Spaulding's office? A. There was no disagreement as to the derivation of the load-carrying capability of the hydro plants, based on minimum flow and the actual loads during the peak week under the weekly recovery program. This figure for 1945 was 161,000 kilowatts. This basic capacity had previously been determined each year [18931] by both Holtwood and Baltimore Companies.

In this conference Mr. Watchorn agreed that the 161,000 kilowatts was correct for that capacity, based on

1945 loads, but said it was not the dependable capacity of the plants. He went on to explain that other elements of capacity value had to be considered in estimating dependable capacity and gave us the following list of other components that should be considered. He gave us values for each component, which when added to the basic capacity of 161,000 kilowatts, gave 295,000 kilowatts, which was the figure that Holtwood Company had reported to the Commission as dependable hydro capacity:

| | |
|--|--------------------|
| Base load carrying capability | 161,000 kw. |
| Added Capacity: | |
| For use of Safe Harbor Storage without refill | 59,000 kw. |
| For change in load shape and energy from Pa. customers | 46,000 kw. |
| For probability of better than most adverse flow | 29,000 kw. |
| Total | 295,000 kw. |

Q. What dependable capacity did you use in your cost allocation for 1946? A. 250,000 kilowatts.

Q. Have you made a computation to determine what the result of your allocation would be if you used the 295,000 kilowatts as dependable hydro capacity? A. Yes.

[18932] Q. What is the result, using 295,000 kilowatts? A. It would increase the costs allocated to Baltimore Company from \$181,739 to \$269,645 and reduce the percentage of revenue in excess of allocated cost applicable to Baltimore Company from 96.37 per cent to 92.5 per cent.

Q. Did you make a mathematical determination to arrive at 250,000 kilowatts? A. No, except in computing the basic load carrying capability of 167,000 kilowatts.

Q. How did you determine the added amount which you include in the 250,000 kilowatts? A. This is a judgment figure based on consideration of the factors which may have additional capacity value. This estimate is also based

on the principle that dependable capacity is not what the seller may be able to compute, as a possible steam capacity replacement, and it may not be just what the buyer would be pleased to pay for, but it is that amount which operating engincers and officials of the company upon which will rest the responsibility for any failure to carry the load, can reasonably, and actually will depend on, in any determination of investment to be made for additional capacity requirements.

[18933] By MR. GOLDBERG:

Q. Mr. Davis, I show you Exhibit 422 for Identification and ask you if you prepared that exhibit? A. I did.

Q. Do I understand that that is a cost allocation prepared in the same manner as Exhibit 421, except that Exhibit 422 is prepared on 1944 data?

MR. MYSE: I want to object to that question on these grounds—and it may be a little bit premature to object to the exhibit but the same objections go to the exhibit. Those objections are as follows: Exhibit 422 and any testimony in connection therewith is not proper rebuttal. They do not rebut any of the evidence which Respondents have put in up to this date. So far as I can see, Exhibit 422 is nothing more than a cumulative exhibit based on a new method, in part. As I said before, that does not rebut anything except it may rebut Mr. Davis' own testimony in the case in chief of the [18934] Commission Staff and I therefore object to this exhibit and any testimony based thereon.

MR. GOLDBERG: I hardly think that calls for a response, Mr. Examiner.

TRIAL EXAMINER: I think maybe you had better respond to it.

MR. GOLDBERG: I would be glad to, Mr. Examiner. The Examiner will recall that the witness Loane pre-

sented an alleged rebuttal exhibit in which he testified certain additional adjustments should be made to the 1944 cost allocation presented by the witness Davis.

MR. EXAMINER, this is clearly in rebuttal to that.

TRIAL EXAMINER: Is it confined to that?

MR. MYSE: May I explain my objection a little bit further?

TRIAL EXAMINER: Just a minute. Is it confined to that?

MR. GOLDBERG: Well, it is not confined to that because it would only be half an exhibit if it were only confined to matters that Mr. Loane brings out. Mr. Loane did not bring out the adjustments that operate in favor of Baltimore Company.

MR. MYSE: Let me explain my objection and show how it is not confined to that.

TRIAL EXAMINER: Wait just a minute. What is the scope of Exhibit 422 for Identification?

[18935] MR. GOLDBERG: Precisely the scope of 421 for Identification, except that 422 is 1944 data.

TRIAL EXAMINER: 421 is your own exhibit, it is not Respondents?

MR. GOLDBERG: I realize that, Mr. Examiner.

TRIAL EXAMINER: What has this to do with the witness Loane?

MR. GOLDBERG: The witness Loane has testified on rebuttal that the proper cost allocation based on 1944 data would be thus and so, as he reflects in his Exhibit 351. Now, then our reply to that is quite the contrary, it is what is shown in Exhibit 422.

MR. MYSE: May I be heard, Mr. Examiner?

TRIAL EXAMINER: Not just yet. Mr. Witness, refer to your Exhibit 422 for Identification. What does it consist of briefly?

THE WITNESS: It consists of the same allocation of costs as Exhibit 64, incorporating all of the things which appeared to me to be proper that were brought out during cross-examination on Exhibit 64, together with some other items that were suggested by the things that were brought out in cross-examination on Exhibit 64.

MR. MYSE: It seems to me to be redirect, Mr. Examiner.

TRIAL EXAMINER: It seems to me you referred to the cross-examination twice.

[18936] THE WITNESS: Of Exhibit 64?

TRIAL EXAMINER: Yes.

THE WITNESS: Yes, I did.

TRIAL EXAMINER: Read me the witness' statement?
(Statement read.)

TRIAL EXAMINER: You mean there was one category you brought out which you considered proper and another category you were uncertain about?

THE WITNESS: No, the other category was things suggested to me in a study of the exhibit by the things that were brought out but which were not brought out in cross-examination on Exhibit 64.

TRIAL EXAMINER: How does your Exhibit 422 relate to Respondents' Exhibit 351?

MR. GOLDBERG: What does the Examiner mean by relate?

TRIAL EXAMINER: Let us see if the witness can answer that.

THE WITNESS: Exhibit 351 introduced a number of things that were brought out during cross-examination on Exhibit 64 which appeared to me to be proper corrections and which I adopted. It brought out a number of others which I did not consider to be proper and which I did not

adopt. It also suggested others which had not been brought out which seemed to me to be proper corrections and I incorporated those in Exhibit 421.

[18937] TRIAL EXAMINER: When you were recalled at one time you presented an exhibit that accepted certain changes that were brought out in your cross-examination?

THE WITNESS: 292 and 249.

MR. GOLDBERG: That is right, and the witness has just stated those were reflected in Exhibit 351 but that Exhibit 351 goes far beyond that.

TRIAL EXAMINER: What is the relationship of Exhibits 249, 292 and 64 to your Exhibit 422 for Identification? Have you gone farther in your 422 than you did in 249 and 292?

THE WITNESS: That is right, incorporating things that were suggested.

TRIAL EXAMINER: Your Exhibits 249 and 292 incorporated things that were directly brought out on your cross-examination?

THE WITNESS: That is right.

TRIAL EXAMINER: And your proposed 422 goes one step further and incorporates certain matters that you selected after further deliberation, is that right?

THE WITNESS: That is correct.

TRIAL EXAMINER: In other words, there is in the record now no cost allocation study by you in one simple, consolidated form that does all of these things that you have proposed to do in 422, is that right?

THE WITNESS: Up to this point, no, there is not.

MR. MYSE: May I ask a few questions along that line?

[18938] TRIAL EXAMINER: Yes.

By Mr. Myse:

Q. Mr. Davis, will you tell me what connection Table V-B of Exhibit 422 has with Mr. Loane's Exhibit 351?

MR. GOLDBERG: Objection, Mr. Examiner. I say that is entirely immaterial and irrelevant to the presentation of this exhibit.

MR. MYSE: The reason I ask this question—and I might explain it to the Examiner—is because Table V-B introduces an entirely new theory of energy balance. There was nothing in Exhibit 64, Exhibit 249 or Exhibit 292 that had any connection with Table V-B and, what is more, there is nothing in Exhibit 351 or 350 that has any connection with the energy balance which is now introduced for the first time.

MR. GOLDBERG: That is the trouble with Exhibit 351.

TRIAL EXAMINER: Mr. Witness, you may answer that question, but do it in the same general way in which you responded to the Trial Examiner's questions with regard to the consolidation of all these matters.

THE WITNESS: Table V-B incorporates those criticisms of Exhibit 64 which appeared to me to be proper. It also incorporates a change in the amount of energy which is supplied by Baltimore to the Holtwood system which was suggested to me by that cross-examination but was not brought out or suggested in either the cross-examination or Mr. Loane's exhibit. [18939] Otherwise this is exactly the same treatment of energy as that in Exhibit 64.

TRIAL EXAMINER: Have you numbered your tables in 422 for identification so that they are parallel with the corresponding tables in Exhibit 64?

THE WITNESS: That is correct.

By Mr. Myse:

Q. Did I understand you to say, Mr. Davis, that Table V-B was something that was not brought out in the testi-

mony of Mr. Loane? A. He did not suggest this change in the amount of energy supplied by Baltimore to the Holtwood system.

MR. MYSE: That is my point, Mr. Examiner, there is absolutely nothing in Exhibit 351 or in any of the testimony of Respondents which calls for this particular testimony in rebuttal. So, I say it is not proper rebuttal and on the witness' own statement it is apparent, if proper at all it may have been proper on redirect but time has long gone since redirect.

[18941] MR. MYSE: I also object to Exhibit 422 on the ground that it is immaterial and irrelevant. Certainly at this late date the year 1944 and any costs therefor have no bearing [18942] on what the reasonableness of the Penn Water or Susquehanna charges should be.

I also point out that we object to Exhibit 422 on the ground that Tables I, II, III, III-A, IV and V are cumulative in that they are merely revisions of prior exhibits, namely Exhibits 64, 249 and 292.

Insofar as the balance of the tables are concerned—I should have included V-A in that—in so far as Table V-B, Table V-C and Table VI are concerned, as well as Table VI-A, they of course are based in part on Table V-B, which is something entirely new to this proceeding up to this point.

To that extent, of course, they are not cumulative but they are subject to the objection I made at first, not proper rebuttal.

MR. GOLDBERG: Mr. Examiner, I cannot help but reach the conclusion that these are but frivolous objections because if the tables referred to are cumulative then by the same token so are the tables presented in Exhibit 351 because they merely go over in part the same revisions made by the witness Davis.

Now, then, the Respondents objecting here would be the first ones to object to an allocation which carried through only part of the suggested revisions. They would insist that there be brought into the hearing room a complete picture of the situation as it relates to 1944. That certainly is what we have done here and it is a desirable procedure.

[18943] Mr. Examiner, counsel has stated that the year 1944 at this late stage is immaterial and irrelevant. I am not so sure about that but I am sure that that is a matter to be decided by the Commission and the Commission should have all of the information available to it to determine whether 1944 is the appropriate basis or 1946 is the appropriate basis, or perhaps some combination of both.

After all, we have had testimony here that the year 1944 is abnormal but by the same token we have had testimony that the witnesses who have so testified regarding the abnormality of the year 1944 have no standard to test the normality or abnormality of the year.

Now, Mr. Examiner, apart from anything else, I might say it is absolutely essential to have in this record an allocation based upon 1944 data companion to that based upon 1946 data. We have had in this case alleged rebuttal testimony which was clearly not rebuttal testimony but which represented no more than Respondents' case in chief which they had elected to withhold until they had had an opportunity to see the Staff's case and cross-examine it.

A clear example of that was the witness Uhl's testimony. His testimony reveals that even before the proceedings had started he had reached conclusions regarding the value of certain land and land rights for the purpose of the determination of the cash value of securities and they brought it in for the [18944] first time only in connection with rebuttal.

I do not think we need any more argument as to the propriety of Exhibit 422.

MR. MYSE: Let me reply briefly to that. I want to deny that we have elected to withhold anything and state that we have been suffering under a handicap because of the fact that we have been unable to find out from the Commission staff what the government proposes in this case, and we still have not found out.

MR. GOLDBERG: That is not what is causing your suffering if that be true. I might point out to the Examiner, there are changes in Exhibit 378 that were never brought into the case before. Who was Mr. Spaulding rebutting there?

TRIAL EXAMINER: I was just considering that. Respondents' Exhibit 35 treated of 1945 and 1946 estimated, and 378 treated of 1946 actual, is that right?

MR. MYSE: That is right.

MR. GOLDBERG: Actual and adjusted.

MR. MYSE: Those adjustments were made and explained in the exhibit. They were necessary because of certain nonrecurring items.

MR. GOLDBERG: I think it goes beyond that.

TRIAL EXAMINER: The objection is overruled.

MR. MYSE: May I take an exception. I want to point out to the Examiner one thing in this connection: We spent [18945] something like three months of intensive labor—a great many people worked on it; I do not know just offhand how many man-hours were involved but there were a great many—in preparing for cross-examination of Exhibit 64. Now, we are suddenly confronted with an exhibit which purports to be a correction of Exhibit 64 but, because of Table V-B is something that is entirely new.

TRIAL EXAMINER: How much does V-B influence 422?

MR. MYSE: Table V-B, Your Honor will note is one of the most important influences on column 9, line 5 of Table VI which is the pay-off.

I might say that in Exhibit 421, which the witness has described as the exhibit which includes an explanation of the differences, the witness himself says in the explanation included in Exhibit 421, page 4, in connection with Table V-B of Exhibit 421—and as I just got through saying the witness said the same explanation applies to V-B in Exhibit 422—he says as follows:

"The increase in the credit to Baltimore over that shown in Exhibit 64 is due in a small part to this credit for capacity, but mostly from the credit for energy delivered to Holtwood from Baltimore's portion of Safe Harbor."

TRIAL EXAMINER: Where are you reading from?

MR. MYSE: The second to the last paragraph on page 4 in [18946] the text of Exhibit 421.

It is that phrase "The increase in credit to Baltimore Company results mostly from the credit for energy delivered to Holtwood from Baltimore's portion of Safe Harbor" which is the keystone of this entire business in Table V-B.

If you will examine Table V-B in this Exhibit 422 and compare it with the comparable table in Exhibit 64, which is the energy balance, you will see they are widely different, they have no connection with each other and it will take us months of study to trace back the figures.

MR. GOLDBERG: Mr. Examiner, I think you are familiar with the story of "Wolf, Wolf." I think we have had here that cry of "Wolf" raised over and over again and I submit that the authenticity of that cry

of anguish can best be tested by reflecting upon the times when that plea is made. For example, yesterday when counsel for Respondents stood up and protested that he had not had a reasonable opportunity to prepare for the cross-examination on the subject of rate of return of the witness Goubleman, which was on a very narrow scope, although they had had that testimony in their possession almost a month. I think that is a pretty fair index of how authentic these claims are.

TRIAL EXAMINER: Well, let's get on. Counsel may make any motion he desires after the cross-examination of direct rebuttal with regard to Exhibit 422, in respect to further time to [18947] prepare further cross-examination, and I will take that under advisement.

THE WITNESS: Yes, that is right.

[18948] Q. Mr. Davis, I show you Exhibit 423 for Identification and ask you whether the tabulations which constitute that exhibit were furnished the staff of the Federal Power Commission by Pennsylvania Water & Power Company? A. That is correct.

Q. Did the staff suggest the titles for the columns or any of the descriptive material on Exhibit 423 for Identification? A. No.

[18952]

CROSS EXAMINATION

By MR. MYSE:

[18999] Q. In order to avoid misunderstanding I would like to have your idea of what the total cost of Holtwood is that you found as applicable and so allocated to Baltimore. Will you do that and give me the total figure? A. I told you what the total figure was.

TRIAL EXAMINER: Do you have any objection to simply adding up those figures?

THE WITNESS: I do not like to take my mind off from where he is going; I would like to have him do it.

TRIAL EXAMINER: I think that is a minor consideration.

THE WITNESS: The gross cost is \$1,425,459.

[19000] By MR. MYSE:

Q. Now, as I understand it, that is the figure which shows the cost of Holtwood which you found allocable to Baltimore before deducting credits to Baltimore, right?

A. That is right.

TRIAL EXAMINER: How did you get that figure?

THE WITNESS: From Table VI, line 5, column 5, we have the special facility cost of \$772,540. In note 3 to line 5, column 4, we show the charge to Baltimore for energy as \$652,919. That makes a total of \$1,425,459.

TRIAL EXAMINER: \$652,919?

THE WITNESS: Right.

TRIAL EXAMINER: You add that to the \$772,540?

THE WITNESS: Right.

TRIAL EXAMINER: I thought you added the 552,000, the 38,000 and the 181,000.

THE WITNESS: The 181,000 is a net cost after deducting credits.

By MR. MYSE:

Q. Net cost of what? A. I probably cut that. The net cost to Baltimore after deducting credits is \$181,739. The two credits are the one shown in column 6, line 5 of \$38,400 and the second item shown in note 3 to column 4, line 5, which is the credit for energy supplied from Baltimore of \$1,205,320.

[19001] The sum of those two, \$1,243,720 subtracted from \$1,425,459 gives the \$181,739.

Q. That means, does it not, that the \$1,425,459 which you found as the total Holtwood cost to be applicable to Baltimore Company is made up of two items, "Special Facility Costs" as shown on line 5, column 5, Table VI of Exhibit 421 and "Energy Costs" which are shown in the first line of footnote 3, is that right? A. That is right.

Q. And there is nothing included in that total cost for capacity cost? A. No.

[19013] Q. Do I understand that these accountants gave you the breakdown of the \$32,939,420 as that breakdown appears in the last column of Table I? A. Yes.

Q. And you take no responsibility for any of the figures? A. That is correct.

Q. So that you do not know whether they are accurate or not, is that right? A. I take no responsibility for them.

[19014] Q. You do not know whether they are accurate then, is that right? A. No, except for my faith in the accounting examiners.

Q. Do I understand that the accounting examiners of the Commission's Staff gave you none of the other figures in any of the other columns on Table I, but that represents your work, right? A. That is right.

[19015] Q. What I am getting at, Mr. Davis, is do you or do you not take any responsibility for any of the figures appearing in column 7 of Table II? A. Oh, no.

Q. When you say you do not take any responsibility that means you do not know whether they are accurate, or not? A. I know Mr. Dunn.

Q. But you personally, do not know whether the figures are accurate, or not, do you? A. I didn't investigate myself, no, sir.

[19022] Q. Referring to Table II of Exhibit 421, line 2, as I understand it, those figures as to depreciation reserve, like the comparable figures in your Exhibit 64, are figures for which you take no responsibility; is that right? A. That is right.

TRIAL EXAMINER: How did you get those figures, by direct ratios that you developed on Table I?

THE WITNESS: No, those figures are developed, as I understand it, from the particular groups of property to which they apply, which groups of property are shown in Table I and there are various rates of depreciation on the different classes of property.

TRIAL EXAMINER: You used the parenthetical figure of one-third, two-thirds, 91 per cent, 9 per cent and so on?

MR. MYSE: We are talking about Table II, Mr. Examiner.

[19023] TRIAL EXAMINER: I know, but he is back to Table I.

THE WITNESS: On Table I we used those ratios to assign property to the various customers and to the pool and from the totals of the property that was thus assigned the various items for the depreciation reserve and the depreciation expense were developed, from the particular items of property.

TRIAL EXAMINER: How did you get "P. P. & L. \$40,000" on Table II from Table I?

THE WITNESS: That is the accountant's derivation from the depreciation; \$40,000, you mean?

MR. MYSE: You mean the \$5,000, do you not, Mr. Examiner?

TRIAL EXAMINER: Yes, the \$5,000.

THE WITNESS: That is the accountant's development of depreciation for that property, those items of property which are listed on Table I amounting to a total of \$40,000.

By MR. MYSE:

Q. Well, as I understand you used that same figure of \$5,401 appearing on Table II, line 2, column 1 of Exhibit 421 and that is a figure which was furnished to you by the Commission's accountants, is that right? A. That is right.

Q. And that is an example of what you testified to a moment ago as to the kind of figures for which you take no responsibility whatever? A. That is right. I was just explaining how I [19024] understood it was developed.

Q. That means, does it not, that you do not know whether the figure of \$5,401, as an example, is accurate or not? A. I accepted that as it was given to me without knowing what it was.

* * *

[19028] Q. Will you refer to Table IV of Exhibit 421, please.

Now, as I understand it, you take no responsibility for the accuracy or otherwise of any of the figures appearing in Column 7 of Table IV. Am I right in that? A. That is right.

Q. And those were all obtained from Commission accountants? A. That is right.

Q. Likewise, you take no responsibility whatsoever for [19029] any of the figures appearing in Line 4 of any of the columns of Table IV of Exhibit 421. Is that right? A. That is right.

Q. And those are figures which again were furnished to you by Commission counsel? A. That is right.

* * *

MR. MYSE: Can we amend it by saying Commission's Staff accountants instead of counsel?

TRIAL EXAMINER: Yes.

By MR. MYSE:

Q. Now, as I also understand, you take no responsibility for the use of the figure of 5 per cent as the rate of return. Is that right. A. I do not.

Q. Now, do you take any responsibility whatsoever for any of the figures appearing in any of the columns in Line 3 of Table IV of Exhibit 421? A. All of them except the one in Column 7.

Q. Well, I understand, then, by that testimony that you actually figured all the taxes applicable to each of the columns in Table 4 of Exhibit 421. Is that right? A. I made that allocation, that is right.

[19032] Q. Now, if you will again refer to the first page of the text of your Exhibit 421, you there state that the engineering and operating data are from reports by Holtwood Company to the Commission.

Now, my first question is, what reports were you there referring to? A. For 1946 the only report we had was the Form 1 report up to date.

Q. So that was the only report then that you were [19033] referring to in the text of your Exhibit 421. Is that right? A. That is true. We had to obtain additional information by special request.

Q. Without specifying in detail, can you refer me generally to the kind of engineering and operating data that you there referred to in the text of your Exhibit 421 as having come from Form 1 for 1946 filed by Holtwood Company and used in your Exhibit 421? A. I believe we have already been over most of it that came from Form 1.

Q. Well, I don't care for detail. I would just like to have you identify generally, if you can, just what the character of information was, engineering and operating data. A. Well, there is no engineering data in Form 1 or operating data except as regards the plants and transmission lines which are given in the Form 1 report.

Q. Well, generally what schedules of that Form 1 did you rely upon for the engineering and operating data that you used in your Exhibit 421? A. Well, sales data we used in developing some of the ratios.

Q. Were you referring to Schedule 530 of Form 1 for 1946? A. 530.

Q. 532? [19034] A. 532 is so twisted up I couldn't use it. 550—

Q. Just a moment.

All right, what else? A. 551, 552, 575.

Q. 575, you say? A. That is right—Schedule, not page.

Q. Yes, I understand. A. 579. There are data in 584 and 586 that are used in the exhibit, but figures shown there I did not take directly from Form 1. Most of those figures were compiled and furnished to me by the accountants.

Q. By who? A. By the Staff accountants.

Q. Does that complete all of the schedules which you can say you used, or which show any of the figures which you described as engineering and operating data from reports by Holtwood Company to the Commission? A. Well, generally: I wouldn't say that there are no other figures in the report that I didn't use. I just went through hurriedly and gave you the major ones.

Q. These are the important ones? A. That is right.

[19045] Q. The fact is you made the allocation of 45 percent of the York line, for example, to Baltimore because that is your opinion of the ratio of the interchange use of that line. Isn't that right? A. That is right.

Q. Now, coming back to the Ellicott City-Takoma line, isn't it a fact that that line is also used for interchange purposes? [19046] A. That may be.

Q. Well, don't you know that to be a fact? A. I think it probably is.

Q. And it is used primarily for interchange purposes between Baltimore and Pepco. Isn't that right? A. That is probably true.

Q. And if it isn't used for interchange purposes between Baltimore and Pepco, it is used for the purpose of supplying firm energy from Baltimore Company to Pepco. Isn't that right?

* * *

THE WITNESS: I believe that is right.

* * *

[19056]

DALE E. GOUBLEMAN

* * *

FURTHER DIRECT EXAMINATION

By MR. GOLDBERG:

Q. Mr. Goubleman, you were asked to supply the May, 1947 earnings-price ratio for page 38 of Exhibit 404. Do you have that figure? A. Yes.

Q. I might state inferentially or parenthetically that the request appears at 18903 and 18904. Will you give that figure, please? A. 7.14 per cent.

[19061]

GEORGE H. DAVIS

* * *

CROSS-EXAMINATION (Resumed)

By MR. MYSE:

Q. Mr. Davis, last night we were referring to a figure of 88,606,000 kwh which you used in arriving at your 45 per cent of the York Line allocable to Baltimore Company and 45 per cent of the Violet Hill Substation allocable to Baltimore Company.

Now, it is a fact, is it not, that you assumed in making your calculation that all of the 88,606,000 kwh which was

billed to Metropolitan Edison Company as firm energy was actually delivered over the York Line and through the Violet Hill Substation, isn't that right? A. That is right.

Q. Now, if, in fact not all of that 88,606,000 kwh was actually transmitted over the York Line and through the Violet Hill Substation, it would tend to increase your percentage, would it not? A. If you used more than 88,000,000 which is 55 percent, you would have something greater than 55 per cent.

Q. I think you misunderstood my question.

[19062] MR. MYSE: Will you read it back, please?

(Question read.)

By MR. MYSE:

Q. It would tend to increase the 45 percentage that I am referring to. Isn't that right? A. Oh, yes, if you used a smaller total and the interchange amount remained the same, the 45 per cent would increase.

[19063] Q. Well, if we assumed that the 88,606,000 kwh that we have been referring to was in fact transmitted over the York Line and through the Violet Hill Substation, and the total energy transmitted over that line was the figure of 175,958,000 kwh, what is the ratio between those two figures? A. Well, that would be something less than 55 per cent for firm, but your 175,000,000 includes another amount that was delivered to Pennsylvania Power and Light Company through the Metropolitan Edison system which was simply an incidental delivery because there existed parallel paths, and doesn't represent anything that this line was built for.

Q. The fact is the energy was transmitted over that line, was it not? A. 175,000,000 was transmitted over that line.

Q. And that represents a use of the line, does it not? A. That represents a use of the line which was incidental

and apart from any purpose of the line and would be offset by the use of some other lines that might have carried that energy to P.P. and L. through Harrisburg.

[19067] Q. Yes; all right. Now, will you refer to page 18986, line 4 of the transcript where I asked you to furnish the [19068] figure showing the percentage of energy furnished by Holtwood to Baltimore compared with the total resources as you testified to them, as well as the percentage of energy costs which you allocated to Baltimore compared with the total costs of service as you testified to them in your Exhibit 421.

MR. GOLDBERG: What is the page reference?

MR. MYSE: Page 18986.

By MR. MYSE:

Q. And a little later at page 18987, line 14, where the question was repeated and it was clarified to make it clear that I meant total costs of energy when I was referring to costs or total costs of service. Have you those figures available this morning, Mr. Davis? A. I think maybe I can give them to you. I was asked this in connection with my statement as to the ratio that would have been obtained by Mr. Spaulding if he had used Holtwood Company alone, and the ratio that I had in mind there was the Holtwood resources compared with the requirements of the firm customers in Pennsylvania, which would be about 25 per cent. I could add to those resources, as Mr. Spaulding did, the amounts supplied by Baltimore, and if I add that 256,000,000 to Holtwood's resources, that would bring the ratio up to about 40 per cent. That 40 per cent ratio, however, includes sending back to Baltimore the energy which it has already supplied at its own cost from steam generation, and charging it back [19069] at a hydro cost.

Now, the other ratio that you asked for as to what I allocated has no relation to my reference to a ratio on

Mr. Spaulding's method, because my method is different, and the ratios are not comparable in any way.

Q. Well, let's have the figure. A. The ratio of energy allocated to Baltimore, which includes the delivery to the Highlandtown Substation and also energy sold as interchange in Pennsylvania from Holtwood's resources, which is 502,000,000 kilowatt-hours—

TRIAL EXAMINER: What is 502,000,000, interchange?

THE WITNESS: 502,000,000 kilowatt-hours is the total energy charged to Baltimore at average Holtwood hydro costs.

By MR. MYSE:

Q. It is actually 502,485,000? A. That is right.

TRIAL EXAMINER: Where did you get that figure?

THE WITNESS: That is the 376,684,000 that is delivered directly to Baltimore at Highlandtown, plus 125,801,000 of Holtwood's resources which are sold as interchange in Pennsylvania which are treated here as sold for the account of Baltimore.

Q. Both of those figures come from column 11 of Table V-B of your Exhibit 421, do they not? A. That is correct, and that 502,000,000 is [19070] approximately 50 per cent of Holtwood's total resources.

Q. And the total energy resources you refer to then must be 992,320,000 kwh as shown in column 3 of Table V-B of Exhibit 421, is that right? A. That is correct. That ratio, however, is not comparable at all to a ratio developed and used on Mr. Spaulding's method of allocation.

Q. And that ratio, to be a little more accurate, would be 50.6 per cent, isn't that correct? A. I think that is probably right. You also asked for the ratio of the cost charged to Baltimore for that energy to the total energy costs.

Q. Total energy costs of Holtwood? A. That is right.

Q. That would be the same ratio, would it not, the way you have done it in your exhibit? A. That is right, that is the energy cost, Holtwood's cost.

[19071] Q. Now, Mr. Davis, if we were to determine the ratio of the Holtwood energy delivered at Highlandtown as you found it as compared with the net generation less the losses as you found them at Holtwood, what ratio would you get? A. Just generation at Holtwood only?

[19072] Q. That is right, we will leave off the one-third Safe Harbor this time. A. That generation at Holtwood is 758,801,000.

Q. From which you would have to subtract 58,804,000 as losses. Is that correct? A. Well, that wouldn't be quite right. Those losses apply to the handling of the other energy from Safe Harbor. Strictly Holtwood losses would be—

Q. Somewhat less? A. —somewhat less than that.

Q. For the moment let's subtract the 58,804,000. A. That would be 700,000,000.

TRIAL EXAMINER: Why do that if it doesn't obtain?

MR. MYSE: Well, I can show, Mr. Examiner, that the ratio by subtracting somewhat less will be slightly smaller, but not much different.

TRIAL EXAMINER: Why would you give him the ratio of the two amounts?

MR. MYSE: If he has the amounts of losses of Holtwood alone he can use those.

THE WITNESS: I don't have the amount of losses applicable to the net generation only.

By Mr. Myse:

Q. Well, couldn't you divide the 58,804,000 proportionately? [19073] A. 992 and 758.

Q. Yes, which would give you a rough approximation, would it not? A. Yes, that would give me about 44 or 45 million.

Q. 758,801,000 less 45,000,000, is that right? A. That is right.

Q. According to my calculation that is 713,801,000, is that right? A. Yes, that is right.

Q. And that would be a figure equivalent to the generation at Holtwood less whatever losses are applicable to that generation, is that right? A. That should be somewhere near.

Q. And that would be the figure equivalent to what you would call the generating resources at Holtwood? A. That is right.

Q. Now, if you take the ratio of the amount delivered at Highlandtown to those generating resources at Holtwood, what figure do you come out with? A. About 53 per cent.

TRIAL EXAMINER: Now, what figures are those that you are relating?

THE WITNESS: That was Holtwood's net generation, line 1, column 3 in Table V-B minus an adjusted figure for losses applicable to that net generation which we roughly took to [19074] be 45 million, I believe, and that then considered to be Holtwood's generating resources from its own plants, a ratio of the 376,000,000 delivered to Highlandtown to that net generation minus losses was about 53 per cent. I don't know what it means, but that is the arithmetic.

By MR. MYSE:

Q. Well, it means this much, does it not, Mr. Davis, that that 53 per cent is the per cent of the Holtwood output that you say was delivered to Baltimore? A. That is the per cent of roughly Holtwood's net generation delivered to Baltimore.

THE WITNESS: The \$76,000,000 is 25 cycle energy and there is no other place for it to go but to Baltimore, even if it has to turn around and come back up to Holtwood as 60 cycle energy. It has to go there and when the water is up they have to generate 80 per cent of the output of Holtwood as 25 cycle and, there is no place to use it except to send it to Baltimore.

By **MR. MYSE:**

Q. Mr. Davis, I haven't asked you for a speech. Can you tell me whether my statement is correct or not. The 53. [19075] per cent represents 53 per cent of Holtwood's output delivered to Baltimore, is that correct, or is it not? A. 376,684,000 kilowatt-hours was delivered to Highlandtown and that is roughly 53 per cent of Holtwood's net generation minus a roughly-adjusted figure for losses.

[19076] Q. Are you saying that that means that it is 53 per cent of Holtwood's output when you are saying it is 53 per cent of Holtwood's generation? A. I don't know just exactly how you distinguish between output and net generation.

Q. Well, I have no distinction. I want to know if that means the same thing to you, Mr. Davis. A. Yes.

Q. It does? A. Surely.

Q. So that it is a true statement— A. That Holtwood's output from its own generation—

Q. That is right, so it is a true statement that the 53 per cent represents Holtwood output delivered to Highlandtown from its own generation? A. I think I told you that twice already.

[19094] Q. So my statement is correct if I say that you have no place in your Exhibit 421 allocated any of the costs associated with those facilities referred to in lines 20 to 24 inclusive, of the first column under the heading P. P. & L. of Table I of Exhibit No. 421 to Baltimore on account of

any interchange use which may be made of them? [19095] A. I think that is a correct conclusion from my answer.

Q. And it may or may not be obvious, but I want you to tell me whether or not it is the fact that you have not allocated to Baltimore any costs associated with the transmission lines owned by Pennsylvania Power and Light Company which may be used for interchange purposes between Harrisburg and Safe Harbor or Holtwood? A. I have no cost figures for Pennsylvania Power and Light Company's lines; in my study I haven't allocated them to anything for any purpose.

Q. Now, likewise, as I understand your exhibit, you have included all of the costs associated with the transmission circuits between Safe Harbor and Penn Water in what you term the balance of transmission system on line 25 of Table I, and the balance of transmission expense in line 16 of Table III, isn't that right? A. That is right.

Q. And that means, doesn't it, that you have not allocated directly to Baltimore any of the costs of such transmission circuits which may be associated with the interchange use of those circuits, isn't that right? A. The only allocation to Baltimore from those circuits would be through allocation from the pool.

Q. So the answer is you have not allocated to Baltimore any of the interchange costs associated with those circuits [19096] between Safe Harbor and Holtwood; isn't that right, Mr. Davis? A. If you say "have not allocated directly to Baltimore," that is right.

TRIAL EXAMINER: Does it eventually get allocated to Baltimore?

THE WITNESS: A portion of it gets allocated to Baltimore, but not on the basis of interchange use.

By MR. MYSE:

Q. As I understand your Table III of Exhibit 421, the figure of \$952,712 which you show on line 5 under the head-

ing, "Pool" as total production expenses were allocated to pool on the assumption that the facilities associated with such costs are used in common by all customers. Isn't that right? A. That is right.

Q. That means, does it not, that the services produced by the steam plant, for example, represented by the costs in lines 2, 3 and 4, are services for all of the customers of Holtwood; is that right? A. You said 2, 3 and 4?

Q. Yes. A. That is correct.

Q. And that means you assumed that all of the customers obtain a use of those steam facilities by obtaining some service from those facilities, isn't that right? A. That is right.

[19097] Q. Now, just how does Baltimore, for example, obtain the use of the steam facilities of Holtwood? A. You mean to trace directly some of the energy from the steam plant to Baltimore?

Q. Can you do that? A. Well, a very small amount could be traced directly.

Q. I don't want you to trace the amounts.

MR. GOLDBERG: Let him finish.

TRIAL EXAMINER: You may finish your answer.

THE WITNESS: The service from any particular piece of equipment is valuable at times, not because it goes directly from that piece of equipment to some customer, but it may replace other energy and release some from another source to go to that customer, and I have classed them all in the pool together, and allocated them on the basis of use.

MR. MYSE: May I have that last answer read, please?

TRIAL EXAMINER: Yes.

(Question read.)

By MR. MYSE:

Q. Now, let's see if I understand your idea of "use" as embodied in that last answer. That means, does it not, Mr. Davis, that if all of the services produced by the Holtwood steam plant were actually transmitted to a Pennsylvania customer, that you assume, nevertheless Baltimore may be using those steam facilities because it replaces energy which might [19098] otherwise be transmitted to Baltimore? A. It might do that, and it might relieve Baltimore of supplying some backfeed, or various other ways.

Q. And because of that replacement, as you have just described it, you say that is a use of Holtwood's steam facilities, for example, by Baltimore Company, is that right? A. That is the way it goes.

Q. Now, Mr. Davis, does line 1 of Table III of Exhibit 421, in the amount of \$269,145 show the total cost of service as you or the Commission accountants found them? A. Unfortunately, no. That contains an artificial reduction in cost there which I tried to remedy, but failed to make it satisfactory, so I have to deduct, according to the accountant's advice, the backwater payment from Conowingo from the total cost of the hydro, which reduces the cost that is charged to the customers artificially. It doesn't reduce it really, but simply compels the use of a lower figure because someone else pays a part of the cost.

Q. Well, actually the figure of total hydro production cost is higher than \$269,145; isn't that correct? A. That is correct.

Q. And it is higher by how much? A. By \$133,750.

Q. And that \$133,750 represents as I understand it, the payment from the Conowingo Company under the backwater agreement? [19099] A. That is right.

Q. Now, is it your judgment that the total cost of hydro production as shown in line 1 should be only \$269,145 instead of the higher figure with the addition of \$133,750, or was it the accountant's judgment?

THE WITNESS: My judgment was that the higher figure was the proper cost to be allocated to customers of Penn Water; but inasmuch as Penn Water is receiving the \$133,750, there seems to be no satisfactory way of handling it except to say that Penn Water had a net cost of only \$269,000. I tried to represent that in a way that seemed to me more proper in Exhibit 64, but it was objected to so strenuously that I consulted the accountants, and they said this was this proper way to handle it.

TRIAL EXAMINER: Who objected to it?

THE WITNESS: Mr. Myse, principally, or his experts.

MR. MYSE: Well, I don't recall any such objection that he refers to. I might say that we objected to the method in the way he handled Exhibit 64, but we certainly don't agree with this method, as well.

MR. GOLDBERG: That means there is no satisfying him.

[19100] By MR. MYSE:

Q. Now, you said it was unfortunate. Have you explained that in your last answer? A. Yes, that is what I meant to explain, that it does not actually reduce the cost by having someone else pay a part of it. But the financial effect on Holtwood is as if the cost were reduced to \$269,000.

Q. Now, referring to line 18 of Table III of Exhibit 421—

TRIAL EXAMINER: Before you do that, referring to your Exhibit 64, your corresponding figure is \$357,980, isn't it?

THE WITNESS: What figure?

TRIAL EXAMINER: Comparing with your \$269,145.

THE WITNESS: Well, in Exhibit 64—I don't have it here—the corresponding figure in Exhibit 64 was the total cost of the hydro. Now, the total cost of hydro in 1946 is \$402,895, and from that—

~~TRIAL EXAMINER:~~ 402,000 what?

~~THE WITNESS:~~ 402,895. That is reduced to \$269,145 by crediting the backwater payment from Conowingo.

MR. MYSE: May I proceed?

~~TRIAL EXAMINER:~~ Well, the \$357,980 which appears in Table III of Exhibit 64, line 1—

~~THE WITNESS:~~ That would be the total cost without any reduction.

~~TRIAL EXAMINER:~~ —is affected by the fact that it [19101] belongs to another year?

~~THE WITNESS:~~ That is right.

[19108] Q. Let me understand that. That figure of \$1,053,564 which appears in column 7, line 2 of Table IV of Exhibit 421, comes from sheet 1 of Schedule 5 of Exhibit 392 prepared by Mr. Dunn? A. That is correct.

Q. And that figure does not represent either the actual bill rendered by Safe Harbor to P.W. for the year 1946 or the actual amount paid by Penn Water to Safe Harbor for the year 1946, does it? A. It is slightly greater, I believe.

Q. In any event, it doesn't represent the actual figures that I referred to? A. That is true.

[19121] Q. Now if we went through a similar process of tracing your allocation of the intangible and general plant, which appears in lines 27 and 28 of Table I of your Exhibit 421, we would find, would we not, that although you have allocated a certain proportion of that intangible plant and general plant to the one-third of the transmission lines which you have allocated to the pool, appearing in lines 7 through 11, inclusive of Table I, you have not allocated any of that intangible and general plant to the remaining two-thirds of those same transmission lines, is not that correct?

[19122] THE WITNESS: The intangible and general plant is allocated to transmission on Table V, shown in column 4 line 5 on the percentage of the directly assignable items, which in this case is the 11.8 per cent of the total.

TRIAL EXAMINER: How do you do that, did you add up the figures in the pool column of Table I?

THE WITNESS: Yes, we have the total.

TRIAL EXAMINER: What is the total?

THE WITNESS: The total pool on Table I is \$24,227,004 and the total intangible and general plant, total of items 27 and 28 on Table I is shown on line 5 of Table V, column 5, as \$970,810, and 11.8 per cent of that is assigned to transmission on the ratio of the actual amount of transmission investment to the total.

Then the total transmission investment and rate base developed in line 13, column 4 of Table V determines the items of depreciation and return in lines 18 and 19, column 4. Those items are the fixed costs on all of the items above in Table IV, or are fixed costs on the total investment, and together with the other items of operating costs of transmission, they are assigned entirely to the capacity component and, because I have no capacity shown here for Baltimore, no part of that is allocated to Baltimore in Table VI.

By MR. MYSE:

Q. Mr. Davis, I have not heard an answer to my question [19123] yet. I appreciate the Examiner has been asking you some clarifying questions. A. I have been through practically the same as what you called the "Rigmarole" for the investment and have come out with approximately the answer you need.

Q. Let's see if I understand it. That means that although you have allocated part of the costs and part of the investment associated with general and intangible plant to one-third of the transmission lines, known as the 220 kv

lines, you have not allocated either any of the investment or costs associated therewith of such intangible and general plant to the remaining two-thirds of such 220 kv lines, is not that right? A. Nothing of the intangible and general plant assigned to transmission in the pool gets allocated to transmission lines which are assigned directly.

Q. To Baltimore? A. To Baltimore or to any other customer.

Q. That is the two-thirds of the 220 kv lines which you had assigned to Baltimore, and hence there is none of that intangible and general expense allocated to that two-thirds portion, is that right? A. That is true.

Q. You have, however, allocated 68.4 per cent of the total intangible and general plant to hydro production [19124] facilities?

TRIAL EXAMINER: Where is that?

MR. MYSE: That appears on Table V, column 1, line 4.

THE WITNESS: You mean line 5?

MR. MYSE: Line 4.

THE WITNESS: Oh, the percentage, 68 per cent to hydro production, that is true.

By Mr. Myse:

Q. Would you say it is approximately correct to say that you have allocated as an energy component approximately 25 per cent of the return costs associated with that 68.4 per cent of intangible and general plant that I have just referred to? A. Approximately 25 per cent of that would go with the items 18 and 19 which are derived from the rate base to the energy component.

Q. Now, it is that 25 per cent of the 68.4 per cent in terms of return which is all that was allocated to Baltimore as costs associated with intangible and general plant, is not that correct? A. That is correct. It was only from

the energy component that any costs are allocated to Baltimore.

[19125] Q. Mr. Davis, I show you a photostat of a document headed "Safe Harbor Facilities" and I ask you whether or not that is the photostat of the work sheets which were furnished to Respondents yesterday in connection with your determination of the difference between the figure of 1,007,185 appearing in column 6, line 2 of Table IV of your Exhibit 421 and the figure of \$1,053,564 appearing in the same line of the same table, column 7? A. That is correct. This develops \$46,379, which is the difference between those two figures.

MR. MYSE: I would like to have marked for identification with the next exhibit number the document just described by the witness, and I ask that we may have the opportunity to withdraw it to make additional positive photostats for [19126] service on all counsel and for the record.

TRIAL EXAMINER: The document handed the reporter may be marked Exhibit 424 for Identification, and may be withdrawn by counsel.

(Exhibit No. 424 is marked for Identification.)

By MR. MYSE:

Q. Referring to Exhibit 424 for Identification, it is a fact, is it not, that in determining the depreciation expense which you ultimately included within the figure of \$46,379, you applied a percentage of 6.4 per cent to a figure of \$507,370, right? A. That is right.

Q. Where did the figure of \$507,370 come from? I might refer you to sheet 1 of Schedule 5 of Exhibit 392. The same figure appears thereon, and I ask you if that is where you obtained the figure?

TRIAL EXAMINER: What is the reference again?

MR. MYSE: Sheet 1 of Schedule 5 of Exhibit 392?

THE WITNESS: That is right.

By MR. MYSE:

Q. Now, as I understand it, this method that you used represents your judgment, not the judgment necessarily of Commission accountants; is that right? A. This method of deriving the costs from the investment furnished us by the company is my own derivation.

[19127] Q. And as well as the method of deriving the portion of the depreciation expense from the total of \$507,370 is also your method, and you take responsibility for it; is that right? A. Applying that 6.4 ratio, you mean, yes.

Q. Now, how was that 6.4 per cent determined? A. That is the ratio of the total investment figure supplied by the Company as representing the facilities at Safe Harbor installed for service to the Railroad Company to the total Safe Harbor plant.

Q. In other words, it is a ratio of investment items? A. That is right.

Q. Now, actually the figure of \$1,934,300 which you use in Exhibit 424 as the total gross investment for railroad service was a figure supplied by the company, but includes only excess costs of 25 cycle generators in the amount of \$608,100, is that right? A. That is right.

Q. It does not include all of the costs of the 25 cycle generators? A. No, this just includes the costs that are assigned for railroad service that would not have been otherwise incurred.

Q. Now, you are not saying, however, that the investment made in the 25 cycle generators other than the [19128] \$608,100 is not used for railroad service, are you? A. No, the balance of that goes in the pool. That is the cost that is assumed would have been incurred if they had been all 60 cycle 3 phase generators.

[19129] Q. I think your answer to my last question preceding this one may not be quite correct, and in order that we might get the record clear on that, I would like to go over it again. In order to determine the return component of the \$46,379 as derived in your Exhibit 424, you applied the ratio of 6.4 per cent as derived in the manner described heretofore to a figure of \$1,400,208 which you describe in Exhibit 424 as "Return 5 per cent", is not that right? A. That is right.

Q. Now, where did you get the figure of \$1,400,208? You did not derive that, of your own knowledge. You got that from the accountants, did you not? A. Yes, sir.

Q. Now, that return of 5 per cent in the amount of \$1,400,208 is a return figured on a depreciated rate base, is it not, or do you know? A. Yes, it is.

Q. The ratio of 6.4 per cent, however, was determined [19130] by comparing the gross investment figures, is that correct? A. Yes.

Q. And it was not determined by comparing the depreciated investment figures, if you want to call them that? A. No, that would assume that the depreciation reserve was not significantly different in the two items that I used to derive the 6.4 per cent.

Q. That means, does it not, that you assumed that the depreciation reserve applicable to the gross investment for railroad service, as furnished to you by the company, would be the same percentage as the depreciation reserve applicable to the entire investment of Scfe Harbor? A. I assumed it would be near enough to make no significant difference in the answer.

Q. And implicit in that assumption is the further assumption that the age of the two groups of property is approximately the same, is not that right? A. Well, it is an assumption that whatever factors there are determined, the depreciation reserve would be near enough together on the whole on an average so that the ratio would

make no significant difference in the answer derived by applying it.

Q. Well, do you consider that age is a significant factor? A. In depreciation reserve?

[19131] Q. Yes. A. Surely.

Q. Now, referring again to Exhibit 424, I note that you arrived at a figure of \$17,053 for operating and maintenance of the frequency converter at Safe Harbor, and you arrived at that figure, as I understand it, by applying the ratio of 2 per cent to something. How did you arrive at the figure? A. 2 per cent to the total value of the frequency changer as given above in the list of investments.

Q. You mean you applied 2 per cent to the figure of \$852,500? A. Yes.

Q. Where did you get the figure of 2 per cent? A. 2 per cent is assumed to be a fair average amount to represent operating and maintenance of electrical equipment.

Q. Well, what do you base your assumption on? That is what I am trying to get at. A. It is a figure that is quite generally used for approximate determination of operating and maintenance of electrical equipment where it cannot be directly determined readily.

Q. Well, did you make any investigation of Safe Harbor's [19132] records to determine whether or not you could determine any portion of that operation and maintenance with respect to the frequency changer? A. I inquired whether any records were kept of separate equipment, and I found there were no records available.

Q. Did you examine any of the work sheets of Mr. Spaulding in connection with Exhibit 378 in determining what method he had used in arriving at the operation and maintenance expenses associated with such frequency converters at Safe Harbor? A. I examined that exhibit. I do not recall what method he used for that at the moment.

Q. Well, I did not ask you whether you examined the exhibit. Did you examine any of the work sheets which

were furnished to the Commission Staff? A. Yes, I examined some of the work papers.

Q. Did you not find in there a breakdown of operation and maintenance with respect to the frequency converters at Safe Harbor? A. I do not recall that.

Q. In any event, you did not use that breakdown, if there is such a one, in your estimate. You used 2 per cent? A. I used 2 per cent before that exhibit and its work sheets were available to me.

• • •

[19134] Q. Did you inquire of any of the operating people at Holtwood or Safe Harbor with respect to the operating expenses and maintenance expenses of the frequency converter? A. I made no inquiry since way back before Exhibit 64 was prepared, and the preparation of this work sheet here is a repetition of the method I used in Exhibit 64 without any further inquiry.

Q. Well, when you inquired in connection with the preparation of Exhibit 64, did you inquire with respect to the expenses incurred in operating and maintaining the frequency converter at Safe Harbor from any of the operating people at Holtwood or Safe Harbor?

MR. GOLDBERG: Objection, Mr. Examiner. We have finished with Exhibit 64.

MR. MYSE: Mr. Examiner, he has tied it right back.

TRIAL EXAMINER: All right, you may answer.

MR. GOLDBERG: He did not do any tying back. It was brought up by counsel for Respondents.

TRIAL EXAMINER: All right.

THE WITNESS: I made no inquiry except as to the existence of separate records of operating and maintenance of the separate pieces of equipment at Safe Harbor.

[19135] By Mr. Myse:

Q. And, as a matter of fact, Mr. Davis, the fact is, is it not, that you did not have to make any inquiry with respect to the maintenance or operating expense of these frequency changers because in the original 64 you did not make any such calculation, right?

MR. GOLDBERG: Now, I object to that, Mr. Examiner. We are right back into Exhibit 64.

TRIAL EXAMINER: Yes, I think so.

MR. MYSE: Well, I think it is apparent from the exhibit. I will withdraw the question.

By Mr. Myse:

Q. Now, in arriving at the \$46,379 you did not include any taxes, did you? A. No.

Q. Nor, did you include any general or administrative expense in connection with the operation of that frequency changer, did you? A. That is supposed to be included in the 2 per cent, all expense.

Q. Do you think the 2 per cent covers general and administrative as well as operating and maintenance? A. Well, the general and administrative expense that would apply to a particular machine I did not consider particularly at all. I did not consider that any significant amount of the [19136] administrative and general expense would apply to this particular equipment or this particular machine.

Q. Well, the 2 per cent certainly does not cover taxes, does it? A. I understood there were no property taxes in Pennsylvania that applied to such equipment.

Q. What about income taxes and general taxes? A. Income taxes are based on revenue and I had no revenue to base them on in determining the cost of this particular equipment.

Q. You did find a return, however, on this particular equipment, did you not? A. Surely, that is fixed cost.

based on the investment, and the investment is what I had to start with.

Q. Now, I note on 424 that you deduct, or that what you did do is arrive at a figure of \$139,138 as total cost of railroad facilities, you termed it, is that right? A. That means the total excess cost of those facilities over what would have been incurred if they had been the same as the other generators in the station.

Q. And the total cost of facilities would be something greater, right? A. The total cost of these facilities, sure, that is true.

Q. Now, however, you arrived at the \$46,379 by [19137] dividing the figure of \$139,138 by three, did you not? A. That is the portion paid by Holtwood Company.

Q. Now, how does Holtwood Company pay that portion? A. By paying one-third of the total Safe Harbor costs.

Q. And that goes back to your assumptions in connection with Items E, F, and G that we cross-examined you on at length before?

MR. GOLDBERG: What assumptions are those? I object to the question as vague and indefinite, Mr. Examiner.

MR. MYSE: I was trying to shorten the cross-examination and if I have to get into it again, it will take weeks.

TRIAL EXAMINER: Well, you had better establish what you are talking about in the way of assumptions.

By MR. MYSE:

Q. Well, Mr. Davis, you assume that Safe Harbor paid one-third, or that Penn Water paid one-third of the cost of \$139,138, and only one-third of those costs by reason of the provisions in Items E, F, and G, right? A. Provisions of E, F and G, and the other documents that show the carrying out of those provisions, such as the bill to Holtwood Company.

Q. What other document do you now have in mind other than the bill? A. Well, the bill, and it appears in other records that the payment that Holtwood makes is one-third of the Safe Harbor [19138] costs. What I mean is that I got it from the contract, and also from the evidence that the provisions of the contract had been carried out.

Q. You say that evidence is embodied in the bill from Safe Harbor to Holtwood, is that right? A. That is right, and the inclusion of that amount in Holtwood's cost. That is all I have here to allocate is one-third of Safe Harbor's costs.

Q. You are not saying that in the bill from Safe Harbor to Holtwood there appears an item of \$46,379, are you? A. I got called down for characterizing a question this morning, and I almost did it again. I am not saying that, no.

• • •

[19139] Q. Referring again to Table V, Exhibit 421, as I understand your previous testimony, I take it that you are not responsible for the accuracy of any of the figures appearing in line 7 of Table V, am I correct in that? A. Yes, sir.

Q. Nor are you responsible for the accuracy of any of the figures appearing in line 18 of Table V of Exhibit 421, right? A. Yes, sir.

Q. And that means any of the figures in any of the columns in each case? A. That is right.

TRIAL EXAMINER: What do you mean by "Any of the figures in any of the columns"?

MR. MYSE: Lines 7 and 18, isn't that right, Mr. Davis?

THE WITNESS: Yes.

By Mr. Myse:

Q. I take it you are also not responsible for the figure of 5 per cent used in computing the figures appearing in line 19 of Table V. Right? A. I believe so.

Q. Well, I do not like your belief necessarily, Mr. Davis. [19140] A. Well, I think I have told you that about three times in the last day or so, I am not responsible for it, for the five per cent return.

Q. Now, do I understand your exhibit correctly in saying that the 74.85 per cent figure appearing in line 22 of Table V was derived from Table V-A by taking the ratio of 250,000 kw found by you to be the total dependable capacity, the total dependable hydro capacity as compared with the total hydro installed capacity? A. That is right, following the same method I used in Exhibit 64.

[19147] Q. There is one correction I think I should make. I refer to lines 16 to 21, inclusive of page 19124. The question is:

“Q. Now, it is that 25 per cent of the 68.4 per cent in terms of return which is all that was allocated to Baltimore as costs associated with the intangible and general plant, is not that correct? “A. That is correct.”

Now, as I understand it, the answer is not entirely correct. It is correct only in so far as 25 per cent of the 68.4 per cent was allocated to the energy component, is not that right? A. 68.4 per cent of the return for the investment in the pool is included under hydro, column 1.

Q. Let's take it step by step, Mr. Davis. That means, does it not that 68.4 per cent of the return costs associated with intangible and general plant was allocated to hydro production costs, is that right? A. 68.4 per cent of the intangible and general plant is allocated to hydro and the return on that proportion of [19148] general and intangible plant would be included in the total amount of

return allocated to hydro in line 19 and the total hydro cost, approximately 25 per cent of it, is assigned to the energy component.

Q. And as we went through it yesterday only approximately 50 per cent of the cost assigned to the energy component was allocated under your method to Baltimore, is not that right? A. That is correct.

Q. So that if you can say that approximately 68 per cent of the return associated with intangible and general plant was allocated to hydro production costs then only 50 per cent of the 25 per cent of that 68.4 per cent in terms of return costs was allocated to Baltimore Company, right? A. That was all that was in the energy component.

Q. And whatever was in the energy component, only approximately half of it was allocated to Baltimore Company, is that right? A. Yes, sir.

Q. Now, will you turn to Table V-A of Exhibit 421? A. Yes, sir.

Q. Mr. Davis, where did you get the figure of 167,000 kw, appearing in column 4, line 3 of Table V-A of Exhibit 421? A. That is obtained by applying the total energy available from the hydro plants under minimum flow conditions for [19149] the week of the peak load in December, to the maximum loads for that week that actually occurred in 1946.

TRIAL EXAMINER: What figure are you now talking about?

THE WITNESS: The 167,000 kilowatts of dependable capacity on the weekly recovery cycle under minimum flow and peak load conditions.

TRIAL EXAMINER: What was your actual mathematics in that?

THE WITNESS: The actual mathematics was computation of the total amount of energy that the hydro plants could generate during that week under the minimum flow conditions.

TRIAL EXAMINER: What was that, do you have it?

THE WITNESS: It is approximately $5\frac{1}{2}$ million kilowatt-hours as I recall—No, that was wrong; it was 3,561,000 kilowatt-hours.

By Mr. MYSE:

Q. Mr. Davis, first of all, as I recall your testimony you referred to the week of the peak load of December 16?

A. The week of December 16 to the 22nd, inclusive.

Q. In the year 1946? A. Yes.

Q. That was the week of the peak load on the area 6 system, is that right? A. That is correct.

Q. And it was not the week of the peak load on the [19150] Holtwood-Safe Harbor system, was it? A. No.

Q. And it was not the week of the peak load on the Holtwood system alone, is that right? A. The Holtwood system alone, do you mean the Holtwood steam and hydro plants?

Q. That is right. A. No, it was not.

THE WITNESS: I should qualify that first answer by saying it was the peak load of area 6 system plus the load to the Pennsylvania customers.

By Mr. MYSE:

Q. I wanted to make that clear. That is the area 6 system as you have used it throughout your testimony? A. That is true.

By Mr. GOLDBERG:

Q. Do I correctly understand that Holtwood and Safe Harbor are part of that Area 6 system? A. The Pennsylvania customers of Holtwood are included in the peak of the area 6 system.

Q. And Penn Water and Safe Harbor are part of that area 6 system, right? [19151] A. That is right.

MR. GOLDBERG: My question to counsel is, what is this Holtwood-Safe Harbor system?

THE WITNESS: What I presume he means by the Holtwood-Safe Harbor system is the Holtwood hydro and steam plants, plus the Safe Harbor hydro plant.

[19176] Q. Mr. Davis, referring again to your Table V-A of Exhibit 421, you there show that you added to the figure of 167,000 kw in column 4, line 3, which you call a "Dependable capacity on weekly recovery cycle under minimum flow and peak load conditions," a figure of 83,000 kw in the same column, [19177] line 4, which you call "Additional capacity value for maintenance, short period loads, from use of pondage, etc." Is that right? A. Yes, sir.

Q. And you therefore arrived at a figure of 250,000 kw, which you call "Total dependable capacity allocated on the basis of installed capacity?" A. That is right.

Q. And in column 4, however, it is what you call the total dependable capacity? A. For the hydros, yes.

Q. Now, that 83,000 kw that you show on Table V-A of Exhibit 421 is the same 83,000 kw that you referred to in note (6) at page 2 of the text of Exhibit 421. Is that right? A. That is right.

Q. Now, can you explain for me just exactly how you arrived at that figure of 83,000 kw? A. Well, that general explanation is in the text following mention of 83,000 kilowatts on page 2 of the text. There are a number of uses where capacity in addition to the minimum load-carrying capability of the plant is of value, and can justly be added to obtain the total dependable capacity of the hydros.

This is a repetition of the method used in Exhibit 64 [19178] for determining dependable capacity except that in that exhibit a figure of 75,000 kilowatts was already added by the company in its estimate of a change to post-war conditions and to standard time, which I accepted and considered that it included something for these other items.

As it turned out, about 36,000, if I recall, was contained in that figure which would account for some of these other items.

In addition to the 75,000 there I added 28,000 as capacity for the sustained use of storage. Now, that is half of what is calculated to be the sustained load on storage for a period of a week. 28 was used in Exhibit 64 on the judgment that all of that 58 or 59 thousand which was computed as sustained load from the use of storage was certainly not of the same value as the base-load carrying capability of the plant under minimum flow conditions, and a judgment figure of half of it was included as a portion of the dependable capacity.

Now, not having any estimated figure for changed conditions here, but applying it to the actual conditions of 1946, I considered approximately the same amount available for the use of pondage, and from the 83,000 that would leave 55,000 which can be considered capacity value for scheduled maintenance, for short time emergencies, for expectation of better than minimum-flow conditions; for swings, for any of the intangibles that the plant can be depended upon for valuable capacity [19179] service.

That figure is not a mathematical determination. It cannot be assigned in detail, parts of it, to any of those items in particular, because sometimes it might be all applied to one item. It might be that the whole amount might be used for short-time emergency at one time, or all of its value used for scheduled maintenance at another time.

The fundamental basis of the determination of dependable capacity for the purpose of allocating costs is an attempt to determine what capacity would be of value in saving investment in additional generating equipment. Whatever you could figure out by any method mathematical or otherwise, as dependable capacity so far as applying that to a cost allocation goes, if it would not, in fact be sufficiently convincing to people responsible for carrying the load so that actually investment would be saved, then it is not dependable capacity for cost allocation purposes.

TRIAL EXAMINER Just a minute. Read the question.

(Question read.)

MR. MYSE: Mr. Examiner, I recognize that the question has been answered long since, and that I did not call for a speech, but in the hope that he would wind up sometime soon, I have been letting him run on.

If the Examiner feels that we have exceeded the bounds of all reason, and I think there might be some justification [19180] for that conclusion, I am willing to object to any further testimony in response to that question.

TRIAL EXAMINER: I think we are getting too lengthy an answer. I am afraid it is going to create some difficulty in cross-examination. I think you had better proceed by putting further questions to the witness.

By MR. MYSE:

Q. As I understand it, the 83,000 kilowatts that we have been referring to consists of at least two components that you can identify: one is 28,000, which you said was for use of pondage, and the balance of 55,000 for all these other items which you called intangible items; is that right?

A. That is correct.

Q. Now, as I understood your testimony up to this point, part of that 55,000 at least was added by you because of the value of the plants at Holtwood and Safe Harbor used in scheduling maintenance, is that right? A. That is right.

Q. Maintenance by whom? A. Maintenance by Safe Harbor, Penn Water and Baltimore.

Q. Does that include maintenance by any of the Pennsylvania customers? A. No, I have no cause here to deal with Pennsylvania customers.

Q. Well, I did not ask you that, Mr. Davis. My [19181] question was, did you in arriving at your 55,000 kw consider in any way the capacity value of the Safe Harbor and Holtwood plants to the Pennsylvania customers in scheduling maintenance? A. I do not know that I specifically considered any of them; when I mentioned scheduled maintenance, I was primarily referring to the value of the capacity to the Baltimore system for scheduled maintenance.

Q. And you were not referring to the value to the Pennsylvania customer system? A. No.

Q. As I recollect your testimony in connection with Exhibit 64 on this subject of allocating the dependable capacity as between Holtwood and Safe Harbor, you stated that the reason you allocated it in proportion to the installed capacity was because the dependable capacity was estimated and reported by Penn Water or Penn Water and Safe Harbor only on a combined basis; right? A. Well, that is the reason why I had to make an allocation, that is true.

Q. Now, that reason is no longer a valid one today, is it? A. There has been some testimony in the proceeding indicating a capacity for Holtwood alone.

[19182] THE WITNESS: The figure that I was referring to was one that I heard Mr. Watchorn give on cross-examination.

TRIAL EXAMINER: All right.

[19183] By MR. MYSE:

Q. That was 100,000 kw? A. Yes.

THE WITNESS: Which is not new. I had that before.

[19184] Q. Now, that 153,512 kw is a summation of certain demands that you used of the Pennsylvania customers plus